

Montgomery County Hospital District

Annual Financial Report

Year Ended September 30, 2023

Montgomery County Hospital District
 Annual Financial Report
 For the Fiscal Year Ended September 30, 2023
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Financial Section

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

The Board of Directors of
Montgomery County Hospital District

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

The Board of Directors of
Montgomery County Hospital District

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2024 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 solely 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 the effectiveness of 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.

The Woodlands, Texas
March 7, 2024

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Management's Discussion and Analysis (Unaudited)

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, 2023. 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, 2023 by \$97,668,912 (net position).
- The revenues for the District's government-wide activities were \$72,285,975, while expenses were \$65,684,221, resulting in an increase in total net position of \$6,601,754 from current year operations.
- The District's governmental fund reported an ending fund balance at September 30, 2023 of \$55,795,219, an increase of \$6,061,270 from the prior year. Approximately 60% of the ending balance, \$33,133,939, is unassigned.
- At year-end, the unassigned General Fund balance was 49% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements*, which include the Statement of Net Position and the Statement of Activities, are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are presented using the full accrual basis of accounting; therefore, revenues are reported when they are earned and expenses are reported when the goods or services are received, regardless of the timing of cash being received or paid.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. The Governmental Accounting Standards Board (GASB) believes that, over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Because the Statement of Activities separates program revenue (revenue generated by specific programs through tenant rent, fees and program charges for services) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each function has to rely on general revenues for funding. The governmental activities of the District include administration, healthcare assistance, emergency medical services, radio, facilities, and information technology, public health and emergency preparedness, and interest and fiscal charges.

The government-wide financial operations (*governmental activities*) of the District are principally supported by taxes and net 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. 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 \$97,668,912 at September 30, 2023, as shown in the table that follows.

Montgomery County Hospital District's Net Position

	Governmental Activities					
	2023		2022		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 64,181,452	64	\$ 64,854,661	64	\$ (673,209)	(1)
Capital assets	35,766,890	36	36,208,909	36	(442,019)	(1)
Total assets	99,948,342	100	101,063,570	100	(1,115,228)	
Total deferred outflows of resources	8,723,717	100	9,539,084	100	(815,367)	(9)
Other liabilities	3,203,335	38	5,540,125	54	(2,336,790)	(42)
Long-term liabilities	5,323,192	62	4,714,195	46	608,997	13
Total liabilities	8,526,527	100	10,254,320	100	(1,727,793)	
Total deferred inflows of resources	2,476,620	100	9,281,176	100	(6,804,556)	(73)
Net position:						
Net investment in capital assets	34,799,000	36	33,396,388	37	1,402,612	4
Unrestricted	62,869,912	64	57,670,770	63	5,199,142	9
Total net position	\$ 97,668,912	100	\$ 91,067,158	100	\$ 6,601,754	

The District's total assets of \$99,948,342 are largely comprised of capital assets net of accumulated depreciation and amortization of \$35,766,890, or 36% of total assets. Capital assets are non-liquid assets and cannot be used to satisfy the District's obligations.

Long-term liabilities of \$5,323,192 or 62% of total liabilities, largely increased from prior fiscal year due to lease additions 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.

The District's net investment in capital assets, \$34,799,000 or 36% of total net position, represents capital assets net of related debt. It should be noted that the resources needed to repay this debt, if any, must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The \$62,869,912, or 64%, of unrestricted net position represents resources available to fund the programs of the District's next fiscal year.

The District's governmental activities increased net position by \$6,601,754. Key components of this increase are as follows:

Montgomery County Hospital District's Changes in Net Position

	Governmental Activities					
	2023		2022		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues:						
Program revenues:						
Charges for services:						
Administration	\$ 249,872	-	\$ 247,210	-	\$ 2,662	1
Healthcare assistance	-	-	338	-	(338)	(100)
Emergency medical services, net	24,410,375	34	20,011,783	32	4,398,592	22
Radio, facilities, and information technology	837,787	1	862,306	1	(24,519)	(3)
Operating grants and contributions:						
Emergency medical services, net	1,257,582	2	1,605,023	3	(347,441)	(22)
Public health emergency preparedness	-	-	13,960	-	(13,960)	(100)
General revenues:						
Property taxes	41,931,470	58	38,497,203	61	3,434,267	9
Grants and contributions not restricted to a specific program	826,826	1	780,843	1	45,983	6
Investment earnings	2,343,897	3	366,703	1	1,977,194	539
Miscellaneous	428,166	1	358,045	1	70,121	20
Total revenues	72,285,975	100	62,743,414	100	9,542,561	
Expenses						
Administration	11,447,628	17	9,768,843	16	1,678,785	17
Healthcare assistance	5,419,969	8	5,465,108	9	(45,139)	(1)
Emergency medical services	40,188,526	62	36,619,546	61	3,568,980	10
Radio, facilities, and information technology	8,393,067	13	8,276,295	14	116,772	1
Public health and emergency preparedness	157,752	-	183,981	-	(26,229)	(14)
Interest and fiscal charges	77,279	-	45,185	-	32,094	71
Total expenses	65,684,221	100	60,358,958	100	5,325,263	
Change in net position	6,601,754		2,384,456		4,217,298	
Net position - beginning	91,067,158		88,682,702		2,384,456	
Net position - ending	\$ 97,668,912		\$ 91,067,158		\$ 6,601,754	

The District's total revenues of \$72,285,975 were all from governmental activities. Property tax revenue accounts for \$41,931,470, or 58%, and net emergency medical services revenue accounts for \$25,667,957, or 36% of total government-wide revenues. Total revenues increased \$9,542,561 over the prior year, primarily due to a increase in EMS charges and property tax revenues.

Total expenses for the year ended September 30, 2023 totaled \$65,684,221. Administration accounted for \$11,447,628 or 17%, healthcare assistance accounted for \$5,419,969 or 8%, emergency medical services accounted for \$40,188,526, or 62%, and radio, facilities, and information technology accounted for \$8,393,067, or 13% of total government-wide expenses.

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 \$33,133,939 and total fund balance was \$55,795,219. As a measure of the general fund's liquidity, it may be useful to compare unassigned and total fund balance to total fund expenditures. Unassigned and total fund balance represents 49% and 83% of total general fund expenditures, respectively. The fund balance of the District's general fund increased by \$6,061,270 during the current fiscal year. Increase in property tax base and EMS charges were the primary reason for the increase in fund balance.

General Fund Budgetary Highlights

The District's budget is prepared on a modified accrual basis.

Capital outlay decreased \$1.6 million from the original budget. This due to moving budgeted purchases to the next fiscal year.

Instances in which actual expenditures exceeded the final 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, 2023 amounts to \$35,766,890 (net of accumulated depreciation and amortization). This investment in capital assets includes land and improvements, construction in progress, buildings and site improvements, equipment, vehicles, communication systems, and right-to-use assets.

Major capital asset additions during the year included the following:

- Construction in progress additions in the amount of \$1,358,134
- Vehicle additions in the amount of \$934,854

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

	Governmental Activities					
	2023		2022		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 3,438,459	10	\$ 2,899,759	8	\$ 538,700	19
Construction in progress	1,830,490	5	1,171,842	3	658,648	56
Buildings and site improvements	20,007,383	56	20,603,131	58	(595,748)	(3)
Equipment	1,424,410	4	1,870,349	5	(445,939)	(24)
Vehicles	2,248,890	6	2,158,758	6	90,132	4
Communication system	3,736,161	10	4,789,760	13	(1,053,599)	(22)
Right-to-use lease assets	2,771,786	8	2,715,310	7	56,476	2
Right-to-use subscription assets*	309,311	1	-	-	309,311	100
Totals	\$ 35,766,890	100	\$ 36,208,909	100	\$ (442,019)	

*Right-to-use subscription assets were restated as of October 1, 2022. See Note 7.

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

Long-term Liabilities

At September 30, 2023, the District had total outstanding long-term liabilities in the amount of \$5,323,192, which was related to leases payable, subscription liability, 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					
	2023		2022		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Leases payable	\$ 2,916,942	55	\$ 2,812,521	60	\$ 104,421	4
Subscription liability*	318,684	6	-	-	318,684	100
Compensated absences	1,652,553	31	1,660,054	35	(7,501)	-
Healthcare claims	435,013	8	241,620	5	193,393	80
Total	\$ 5,323,192	100	\$ 4,714,195	100	\$ 608,997	

*Subscription liability was restated as of October 1, 2022. See Note 8.

The District's total long-term liabilities increased by \$608,997 during the 2023 fiscal year, due to increases in lease payables and healthcare claims and the addition of subscription liability to conform to GASB 96. Additional information on the District's long-term liabilities can be found in Note 8 of this report.

Discretely Presented Component Unit

The Montgomery County Public Health District (MCPHD) is legally separate from the District and is reported as a discretely presented component unit. The MCPHD has assigned or contracted with the District to administer all programs, services, and administrative needs of the MCPHD. The MCPHD is reported in a separate column in the government-wide financial statements.

Economic Factors and Next Year's Budgets and Rates

- District staff totals 409 employees, 260 of which are EMS first responders.
- The unemployment rate for Montgomery County is currently 4.1%, which is a decrease from the rate of 4.2%.
- The population of Montgomery County at September 30, 2023 is approximately 700,000.
- A maintenance and operations tax rate of \$.0498 was adopted for the 2023-2024 fiscal year.

The District's budgeted fund balance for the 2024 fiscal year is expected to decrease by approximately \$4,386,666.

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, 2023

Exhibit A-1

	Primary Governmental Activities	Component Unit MCPHD
ASSETS		
Cash and cash equivalents	\$ 13,903,933	\$ 3,198,948
Investments	34,553,981	-
Receivables, net	12,209,336	7,500
Intergovernmental receivables	-	209,870
Due from component unit	128,461	-
Inventories	1,177,341	-
Prepaid items	284,079	1,596
Net pension asset	1,924,321	-
Capital assets, non-depreciable:		
Land and improvements	3,438,459	-
Construction in progress	1,830,490	-
Capital assets, net of accumulated depreciation and amortization:		
Buildings and site improvements	20,007,383	-
Equipment	1,424,410	-
Vehicles	2,248,890	-
Communication system	3,736,161	-
Right-to-use lease assets	2,771,786	-
Right-to-use subscription asset	309,311	-
Total capital assets	<u>35,766,890</u>	<u>-</u>
Total assets	99,948,342	3,417,914
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources for pensions	8,723,717	-
Total deferred outflows of resources	<u>8,723,717</u>	<u>-</u>
LIABILITIES		
Accounts payable and accrued liabilities	3,184,197	55,532
Accrued interest	19,138	-
Unearned revenues	-	1,504
Due to primary government	-	128,461
Noncurrent liabilities:		
Due within one year:		
Leases payable	649,206	-
Subscription liability	100,241	-
Compensated absences	1,652,553	-
Healthcare claims	435,013	18,329
Due in more than one year:		
Leases payable	2,267,736	-
Subscription liability	218,443	-
Total liabilities	<u>8,526,527</u>	<u>203,826</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources for pensions	392,191	-
Deferred inflows of resources for leases	2,084,429	-
Total deferred inflows of resources	<u>2,476,620</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	34,799,000	-
Unrestricted	62,869,912	3,214,088
TOTAL NET POSITION	<u>\$ 97,668,912</u>	<u>\$ 3,214,088</u>

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

Montgomery County Hospital District

Statement of Activities

Year Ended September 30, 2023

FUNCTIONS/PROGRAMS	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental activities:			
Administration	\$ 11,447,628	\$ 249,872	\$ -
Healthcare assistance	5,419,969	-	-
Emergency medical services	40,188,526	24,410,375	1,257,582
Radio, facilities, and information technology	8,393,067	837,787	-
Public health and emergency preparedness	157,752	-	-
Interest and fiscal charges	77,279	-	-
Total governmental activities	65,684,221	25,498,034	1,257,582
TOTAL PRIMARY GOVERNMENT	\$ 65,684,221	\$ 25,498,034	\$ 1,257,582
COMPONENT UNIT			
Montgomery County Public Health District	\$ 1,707,948	\$ 28,277	\$ 1,139,124

General revenues

Property taxes

Grants and contributions not restricted to a specific program

Investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position - beginning

NET POSITION - ENDING

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>
\$ (11,197,756)	\$ (11,197,756)	
(5,419,969)	(5,419,969)	
(14,520,569)	(14,520,569)	
(7,555,280)	(7,555,280)	
(157,752)	(157,752)	
(77,279)	(77,279)	
<u>(38,928,605)</u>	<u>(38,928,605)</u>	
(38,928,605)	(38,928,605)	
		\$ (540,547)
41,931,470	41,931,470	-
826,826	826,826	-
2,343,897	2,343,897	-
428,166	428,166	90,089
<u>45,530,359</u>	<u>45,530,359</u>	<u>90,089</u>
6,601,754	6,601,754	(450,458)
<u>91,067,158</u>	<u>91,067,158</u>	<u>3,664,546</u>
<u>\$ 97,668,912</u>	<u>\$ 97,668,912</u>	<u>\$ 3,214,088</u>

Montgomery County Hospital District

Balance Sheet - Governmental Fund

September 30, 2023

Exhibit C-1

	General Fund
ASSETS	
Cash and cash equivalents	\$ 13,903,933
Investments	34,553,981
Receivables:	
Taxes receivable, net	1,011,953
EMS receivable, net	7,311,523
Lease receivable	2,154,225
Lease interest receivable	6,698
Other receivables	1,724,937
Due from component unit	128,461
Inventories	1,177,341
Prepaid items	284,079
	<hr/>
TOTAL ASSETS	\$ 62,257,131
	<hr/>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 3,184,197
	<hr/>
Total liabilities	3,184,197
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	1,011,953
Unavailable revenue - long term receivable	181,333
Leases	2,084,429
	<hr/>
Total deferred inflows of resources	3,277,715
	<hr/>
FUND BALANCE	
Nonspendable - inventories	1,177,341
Nonspendable - prepaid items	284,079
Committed - capital replacement	1,900,000
Committed - capital maintenance	100,000
Committed - open purchase orders	6,079,962
Committed - uncompensated care	7,500,000
Committed - catastrophic events	5,000,000
Assigned - open purchase orders	619,898
Unassigned	33,133,939
	<hr/>
Total fund balance	55,795,219
	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 62,257,131
	<hr/>

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

Montgomery County Hospital District

Exhibit C-2

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position September 30, 2023

TOTAL FUND BALANCE - GOVERNMENTAL FUND BALANCE SHEET \$ 55,795,219

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:

Capital assets costs	\$ 69,647,635	
Accumulated depreciation and amortization of capital assets	<u>(33,880,745)</u>	35,766,890

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. 1,924,321

Property taxes receivable and long-term receivable will be collected subsequent to year-end, but are not available soon enough to pay expenditures; therefore, these are deferred in the governmental fund. 1,193,286

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:

Leases payable	\$ (2,916,942)	
Subscription liability	(318,684)	
Accrued interest on leases	(19,138)	
Compensated absences	(1,652,553)	
Healthcare claims	<u>(435,013)</u>	(5,342,330)

Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (392,191)

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until that time. 8,723,717

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 97,668,912

Montgomery County Hospital District
Statement of Revenues, Expenditures and Changes
in Fund Balance – Governmental Fund
Year Ended September 30, 2023

Exhibit C-3

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 41,791,707
Charges for services, net	25,582,616
Intergovernmental	2,084,408
Investment earnings	2,343,897
Miscellaneous	397,790
	<hr/>
Total revenues	72,200,418
EXPENDITURES	
Current:	
Administration	10,802,867
Healthcare assistance	5,453,402
Emergency medical services	39,817,405
Radio, facilities, and information technology	5,948,800
Public health and emergency preparedness	163,039
Debt service:	
Principal retirement	692,242
Interest and fiscal charges	120,842
Capital outlay	3,985,756
	<hr/>
Total expenditures	66,984,353
	<hr/>
Excess of revenues over expenditures	5,216,065
OTHER FINANCING SOURCES	
Leases	735,095
Proceeds from sale of capital assets	110,110
	<hr/>
Total other financing sources	845,205
	<hr/>
Net change in fund balance	6,061,270
	<hr/>
Fund balance - beginning	49,733,949
	<hr/>
FUND BALANCE - ENDING	<u><u>\$ 55,795,219</u></u>

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

Montgomery County Hospital District

Exhibit C-4

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities Year Ended September 30, 2023

TOTAL NET CHANGES IN FUND BALANCE - GOVERNMENTAL FUND	\$ 6,061,270
Amounts reported for governmental activities in the statement of activities are different because:	
Some property taxes and long-term receivables will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues and charges for services increased (decreased) by this amount this year.	63,574
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	\$ 3,985,756
Depreciation and amortization expense	<u>(4,823,880)</u>
	(838,124)
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is a increase (decrease) to net position.	(17,255)
Issuance of a lease provides current financial resources to governmental funds, but issuing a lease increases long-term liabilities in the statement of net position.	(735,095)
Repayment of lease and subscriptions principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	692,242
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 leases and subscriptions	309
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.	7,501
Some transactions reported in the statement of activities but do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Self-insured healthcare	(193,393)
Remeasurement of leases payable	<u>33,108</u>
	(160,285)
The net change in net pension liability and related deferred inflows and outflows is reported in the statement of activities but does not require the use of, or provide current financial resources and, therefore, is not reported in the governmental fund. The net change consists of the following:	
Deferred inflows (increased) decreased	\$ 6,989,225
Deferred outflows increased (decreased)	(815,367)
Net pension asset increased (decreased)	<u>(4,646,241)</u>
	<u>1,527,617</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>6,601,754</u>

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 government 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 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 are tangible and intangible assets, which include land and improvements, construction in progress, buildings and site improvements, equipment, vehicles, communication system assets (e.g. radio towers, structures, equipment, and similar items), right-to-use lease assets and right-to-use subscription assets are reported in the governmental activities column in the government-wide financial statements. Tangible capital assets are defined by the government as assets with an initial, individual cost ranging from \$5,000 to \$50,000 depending on the asset class and an estimated useful life in excess of five years. Non-tangible capital assets are defined by the government as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year.

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, communication system assets and right-to-use lease and subscription assets of the primary government are depreciated/amortized using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and site improvements	5-30
Equipment	5-20
Vehicles	5
Communication system	5-30
Right-to-use lease assets	Shorter of lease term or useful life
Right-to-use subscription assets	Shorter of subscription term or useful life

5. Leases

Lessee

The District is a lessee for noncancellable leases of real and personal property. The District recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset (lease asset), reported with other capital assets, in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, purchase option price that the District is reasonably certain to exercise, lease incentives receivable from the lessor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Montgomery County Hospital District

Notes to the Financial Statements

Lessor

The District is a lessor for noncancellable leases of real and personal property. The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease receivable are composed of fixed payments from the lessee, variable payments from the lessee that are fixed in substance or that depend on an index or a rate, residual value guarantee payments from the lessee that are fixed in substance, and any lease incentives that are payable to the lessee.

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

6. Subscription-Based Information Technology Arrangements (SBITAs)

The District has noncancellable contracts with SBITA vendors for the right to use information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). The District recognizes a subscription liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with other capital assets, in the government-wide financial statements. The District recognizes subscription liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a SBITA, the District initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of SBITA payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for SBITA payments made at or before the SBITA commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying IT assets.

Montgomery County Hospital District

Notes to the Financial Statements

Key estimates and judgments related to SBITAs include how the District determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The District uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.
- The subscription term includes the noncancellable period of the SBITA.
- Subscription payments included in the measurement of the subscription liability are composed of fixed payments, variable payments fixed-in-substance or that depend on an index or a rate, termination penalties if the District is reasonably certain to exercise such options, subscription contract incentives receivable from the SBITA vendor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The District monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

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

In addition to liabilities, the statement of net position and 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 assets 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 three items that qualify for reporting in this category in the governmental fund financial statements. 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, deferred inflows for leases are recognized in both the governmental fund and government-wide financial statements on a straight-line basis over the associated lease term. The District has another deferred inflow which is reported only in the government-wide statement of net position. This item is *deferred inflows of resources for pensions*, which results from differences in expected and actual experience and also includes change in assumptions and projected verses actual earnings in the current fiscal year.

8. 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

9. **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 amortization, 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.

10. **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.

11. **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 their 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.

12. 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.

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

G. Implementation of New Accounting Standards

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement 1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset - and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments; and 4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. GASB 96 was implemented in the District's fiscal year 2023, resulting in recognition of \$413,360 in subscription liabilities and subscription assets as of October 1, 2022 in the government-wide financial statements to conform to the new standard.

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.

At year end, the District committed a portion of fund balance for outstanding encumbrances of \$6,079,962 and assigned a portion of fund balance for outstanding encumbrances of \$619,898 in the general fund.

Note 3. Deposits and Investments

Primary Government

At September 30, 2023, the carrying amount of the District's deposits (cash in bank, interest-bearing savings accounts, and money market accounts) was \$13,902,183 and the bank's balances totaled to \$14,023,821. At September 30, 2023, all bank balances were covered by federal deposit insurance and pledged collateral held by the financial institution in the District's name.

Montgomery County Hospital District

Notes to the Financial Statements

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.

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	\$ 34,427,727	100
Investments measured at amortized cost		
External investment pools		
TexPool	69,843	28
TexSTAR	56,411	29
Total Value	\$ 34,553,981	
Portfolio weighted average maturity		100

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 or 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.

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.

Montgomery County Hospital District

Notes to the Financial Statements

Credit risk. For fiscal year 2023, 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, 2023. Non-negotiable certificates of deposit are fully insured and collateralized by their respective financial institutions.

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, 2023, 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 is duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Hermes, Inc. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; and AAA rated money market mutual funds.

The investment pool transacts at a net asset value of \$1.00 per share, has a weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by a nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. The investment pool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities 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 emergency that affects the pools' liquidity.

Texas Short Term Asset Reserve Program (TexSTAR)

TexSTAR is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by Hilltop Securities, Inc. and J.P. Morgan Investment Management, Inc. (JPMIM), and managed by JPMIM, who provides custody and investment management.

The primary objectives of TexSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet Participants' needs, and yield. The portfolio will maintain a dollar-weighted average maturity that does not exceed 60 days and seeks to maintain a net asset value of \$1.00 per share. TexSTAR may invest in securities including: obligations of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; other obligations which are unconditionally guaranteed or insured by the U.S.; fully collateralized repurchase agreements with a defined termination date and unconditionally guaranteed or insured by the U.S. or its agencies and instrumentalities; and SEC-registered no-load money-market fund which meet the requirements of the Public Funds Investment Act. The investment pool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities 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 emergency that affects the pools' liquidity.

Montgomery County Hospital District

Notes to the Financial Statements

Discretely Presented Component Unit

As of September 30, 2023, the MCPHD carrying balance of bank deposits was \$3,198,848, and the bank balance was \$3,198,848 and was insured and collateralized by the bank's agent in the District's name.

Note 4. Receivables

Amounts recorded as receivable in the Governmental Activities, as of September 30, 2023, are as follows:

	Receivables	Less Allowance for Uncollectibles	Net Receivables
Receivables:			
Taxes	\$ 1,359,312	\$ (347,359)	\$ 1,011,953
Emergency medical service fees	10,546,419	(3,234,896)	7,311,523
Lease receivable	2,154,225	-	2,154,225
Lease interest receivable	6,698	-	6,698
Other	1,724,937	-	1,724,937
Totals	\$ 15,791,591	\$ (3,582,255)	\$ 12,209,336

Leases Receivable

The District, as the lessor, entered into long-term lease agreements for the right-to-use land, equipment and radio communication towers for periods ranging from 5 to 20 years and at interest rates ranging from 2.605% to 3.000%. The underlying assets associated with these leases are recorded in the District's capital assets. The District has \$2,154,225 of leases receivable and \$2,084,429 of deferred inflows outstanding as of September 30, 2023. Lease revenue of \$394,951 and lease interest of \$69,594 was recognized for the year ended September 30, 2023 associated with these agreements.

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 combined current tax rate for the year ended September 30, 2023 was \$0.0502 per \$100, allocated to the General Fund. Taxes for fiscal year 2023 were levied on property within the District having an assessed valuation of approximately \$83 billion.

Note 6. EMS Revenues

The District's EMS revenues generally related to contracts with patients in which the performance obligation is to provide emergency services to patients. Revenues are recorded during the period in which these performance obligations are satisfied. The performance obligations are generally satisfied over a period of less than a day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid and commercial insurance companies) and the transaction prices for the services provided are dependent upon the terms provided by Medicare and Medicaid or negotiated with commercial insurance companies, the third-party payers. The payment received from third-party payers for the services provided to the related patients typically are amounts less than the District's standard charges. Management continually reviews the discount estimation process to consider and incorporate updates to payment rates.

Montgomery County Hospital District

Notes to the Financial Statements

The District's revenues are based upon the estimated amounts expected to be received from patients and third-party payers. For all payers, other than Medicare and Medicaid, the District records implicit price concessions (based primarily on historical collection experience utilizing a portfolio method) to record revenues at the estimated amounts expected to be collected. Net and gross revenues by primary third-party payer and patients for the year ended September 30, 2023 is summarized in the following table:

	<u>2023</u>
Commercial and others	\$ 12,831,078
Medicare	27,781,065
Medicaid	6,681,450
Self pay	<u>11,580,798</u>
Gross revenue by payor	\$ 58,874,391
Contractual allowances	(20,057,407)
Charity care	(11,609,200)
Provision for bad debt	<u>(2,797,409)</u>
EMS revenues, net	<u>\$ 24,410,375</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretations. As a result, there is at least a reasonable possibility recorded estimates will change by a material amount in the near term.

Note 7. 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 MCHPD 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 \$8,333 per month.

The District and MCPHD have an interlocal agreement to provide community paramedicine services and public health community education. The District will provide the services and MCPHD will reimburse the District on or before the 15th day of each month for the services provided. For the year ended September 30, 2023, the District recognized as revenue and MCPHD recognized as expense a total of \$40,500 for services rendered. The elimination of the 1115 Medicaid Waiver program has significantly reduced these types of service transactions between the District and MCPHD.

The District and MCPHD have also entered into a lease agreement whereby MCPHD leases office space from the District for approximately \$111,581 per year. This agreement is automatically renewed annually unless terminated by either party with proper written notification.

Montgomery County Hospital District

Notes to the Financial Statements

Amounts receivable and payable between the District and its component unit at September 30, 2023 were as follows:

Primary Government/Component Unit	Receivables	Payables
District - General Fund	\$ 128,461	\$ -
Component unit - MCPHD	-	128,461
Totals	\$ 128,461	\$ 128,461

Note 8. Capital Assets

Government capital assets activity for the year ended September 30, 2023 was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Governmental activities:					
Capital assets, not being depreciated/amortized:					
Land and improvements	\$ 2,899,759	\$ 284,830	\$ 253,870	\$ -	\$ 3,438,459
Construction in progress	1,171,842	1,358,134	(699,486)	-	1,830,490
Total capital assets, not being depreciated/amortized	4,071,601	1,642,964	(445,616)	-	5,268,949
Capital assets, being depreciated/amortized:					
Buildings and site improvements	30,383,767	349,955	50,880	-	30,784,602
Equipment	9,355,965	322,888	-	(13,466)	9,665,387
Vehicles	9,819,110	934,854	394,736	(864,627)	10,284,073
Communication system	9,188,770	-	-	-	9,188,770
Right-to-use lease assets - buildings	1,161,251	261,544	-	-	1,422,795
Right-to-use lease assets - equipment	1,861,079	-	-	-	1,861,079
Right-to-use lease assets - v vehicles	365,709	473,551	-	(80,640)	758,620
Right-to-use assets - IT Subscriptions ^[1]	413,360	-	-	-	413,360
Total capital assets being depreciated/amortized	62,549,011	2,342,792	445,616	(958,733)	64,378,686
Less accumulated depreciation/amortization for:					
Buildings and site improvements	(9,780,636)	(1,019,419)	-	22,836	(10,777,219)
Equipment	(7,485,616)	(768,827)	-	13,466	(8,240,977)
Vehicles	(7,660,352)	(1,233,964)	-	859,133	(8,035,183)
Communication system	(4,399,010)	(1,053,599)	-	-	(5,452,609)
Right-to-use lease assets - buildings	(94,299)	(106,324)	-	-	(200,623)
Right-to-use lease assets - equipment	(479,553)	(393,437)	-	-	(872,990)
Right-to-use lease assets - v vehicles	(98,877)	(144,261)	-	46,043	(197,095)
Right-to-use assets - IT Subscriptions	-	(104,049)	-	-	(104,049)
Total accumulated depreciation/amortization	(29,998,343)	(4,823,880)	-	941,478	(33,880,745)
Total capital assets, being depreciated/amortized, net	32,550,668	(2,481,088)	445,616	(17,255)	30,497,941
Government activities capital assets, net	\$ 36,622,269	\$ (838,124)	\$ -	\$ (17,255)	\$ 35,766,890

^[1] Beginning balance was restated \$413,360 as of October 1, 2022, due to implementation of GASB 96. See Note 1.G.

Montgomery County Hospital District

Notes to the Financial Statements

Depreciation and amortization expense was charged to functions/programs for the fiscal year 2023 as follows:

Governmental activities:	
Administration	\$ 543,438
Healthcare assistance	1,629
Emergency medical services	1,770,868
Radio, facilities, and information technology	<u>2,507,945</u>
Total	<u>\$ 4,823,880</u>

Montgomery County Public Health District's capital asset activity for the year ended September 30, 2023 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	(21,041)	(3,237)	-	-	(24,278)
Total accumulated depreciation	(21,041)	(3,237)	-	-	(24,278)
MCPHD activities capital assets, net	<u>\$ 3,237</u>	<u>\$ (3,237)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense of \$3,237 was charged for the fiscal year 2023 to MCPHD.

Note 9. Long-term Liabilities

A. Changes in Long-term Liabilities

Changes in long-term liabilities for the year ended September 30, 2023 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Leases payable	\$ 2,812,521	\$ 735,095	\$ (630,674)	\$ 2,916,942	\$ 649,206
Subscription liability*	413,360	-	(94,676)	318,684	100,241
Compensated absences	1,660,054	1,831,635	(1,839,136)	1,652,553	1,652,553
Healthcare claims	241,620	5,976,233	(5,782,840)	435,013	435,013
Governmental activities long-term liabilities	<u>\$ 5,127,555</u>	<u>\$ 8,542,963</u>	<u>\$ (8,347,326)</u>	<u>\$ 5,323,192</u>	<u>\$ 2,837,013</u>
Component unit activities:					
Healthcare claims	\$ 12,270	\$ 249,712	\$ (243,653)	\$ 18,329	\$ 18,329
Component unit activities long-term liabilities	<u>\$ 12,270</u>	<u>\$ 249,712</u>	<u>\$ (243,653)</u>	<u>\$ 18,329</u>	<u>\$ 18,329</u>

*Beginning balance was restated \$413,360 as of October 1, 2022, due to implementation of GASB 96. See Note 1.G.

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

Montgomery County Hospital District

Notes to the Financial Statements

B. Leases Payable

The District has entered into multiple lease agreements as lessee. The leases allow the right-to-use buildings, equipment and vehicles over the term of the lease. The District is required to make monthly, quarterly, or annual payments at its incremental borrowing rate or the interest rate stated or implied within the leases. The lease rates, terms and ending lease liability are as follows:

Description	Interest Rate(s)	Lease Term in Years	Ending Balance
Defibrillators / monitors	3.000-8.250%	5.0	\$ 1,027,881
Building leases	2.605-6.500%	5.0-20.0	1,255,703
Vehicle leases	2.605-7.250%	3.0-5.0	591,483
Other leases	2.605-3.000%	3.0	41,875
Totals			\$ 2,916,942

The future debt service requirements for leases as of September 30, 2023 are noted below:

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Total
2024	\$ 649,206	\$ 102,682	\$ 751,888
2025	568,337	80,885	649,222
2026	562,852	59,929	622,781
2027	132,930	40,341	173,271
2028	71,838	36,679	108,517
2029-2033	360,383	146,617	507,000
2034-2038	384,905	79,495	464,400
2039-2043	186,491	16,598	203,089
Totals	\$ 2,916,942	\$ 563,226	\$ 3,480,168

The value of the right-to-use assets as of the end of the current fiscal year was \$4,042,494 and had accumulated amortization of \$1,270,708.

C. Subscription Liability

The District has entered into multiple subscription liability agreements. The subscriptions allow the right-to-use assets to software over the term of the subscription. The District is required to make monthly, quarterly, or annual payments at its incremental borrowing rate or the interest rate stated or implied within the subscription. The rates, terms and ending subscription liability are as follows:

Description	Interest Rate(s)	Lease Term in Years	Ending Balance
Software	6.50%	2.0	\$ 318,684

Montgomery County Hospital District

Notes to the Financial Statements

The future debt service requirements for subscriptions as of September 30, 2023 are noted below:

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Total
2024	\$ 100,241	\$ 16,978	\$ 117,219
2025	101,200	10,640	111,840
2026	107,931	3,909	111,840
2027	9,312	8	9,320
Totals	\$ 318,684	\$ 31,535	\$ 350,219

The value of the right-to-use assets as of the end of the current fiscal year was \$229,580 and had accumulated amortization of \$110,419.

Note 10. Pension Plan

A. Plan Description

The District's nontraditional defined benefit pension plan, Texas County and District Retirement System (TCDRS), provides pensions for all of its full-time employees. The TCDRS Board of Trustees is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of over 830 participating counties and districts throughout Texas. TCDRS in the aggregate issues an annual comprehensive financial report (ACFR) on a calendar year basis. The most recent ACFR for TCDRS can be found at the following link: www.tcdrs.org.

B. Benefits Provided

TCDRS provides retirement, disability, and death benefits. The plan provisions are adopted by the governing body of the District within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire with five or more years of service at age 60 and above, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after five years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the District.

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

The Plan is open to new entrants.

Montgomery County Hospital District

Notes to the Financial Statements

C. Employees Covered by Benefit Terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	33
Inactive employees entitled to but not yet receiving benefits	304
Active employees	<u>398</u>
Total	<u><u>735</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 contribution rates for the District is 9.50% in calendar years 2022 and 2023. The District's contributions to TCDRS for the fiscal year ended September 30, 2023 were \$3,148,150.

The deposit rate payable by the employee member was 7.00% as adopted by the Board of Directors. The employee deposit rate and the employer contribution rate may be changed by the Board of Directors within the options available in the TCDRS Act.

E. Actuarial Assumptions

The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Payroll growth	2.50%
Real rate of return	5.00%
Long-term investment return	7.50%

Montgomery County Hospital District

Notes to the Financial Statements

The actuarial assumptions that determined the total pension liability/asset as of December 31, 2022, were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2020, except where required to be different by GASB 68, and adopted by the TCDRS Board of Trustees in March of 2021. In addition, mortality rates were based on the following mortality tables:

Depositing Members	135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Service retirees, beneficiaries and Non-depositing Members	135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Disabled retirees	160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

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 capital market assumptions and information shown are based on January 2023 information for a 10 year time horizon.

Montgomery County Hospital District

Notes to the Financial Statements

The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a long-term time horizon, the most recent analysis was performed for the January 1, 2017 through December 31, 2020. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Geometric Real Rate of Return
U.S. equities	11.50 %	4.95%
Global equities	2.50	4.95%
International equities - developed markets	5.00	4.95%
International equities - emerging markets	6.00	4.95%
Investment - grade bonds	3.00	2.40%
Strategic credit	9.00	3.39%
Direct lending	16.00	6.95%
Distressed debt	4.00	7.60%
REIT equities	2.00	4.15%
Master limited partnerships	2.00	5.30%
Private real estate partnerships	6.00	5.70%
Private equity	25.00	7.95%
Hedge funds	6.00	2.90%
Cash equivalents	2.00	0.20%
Total	100.00 %	

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. 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 7.60% has been used. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Montgomery County Hospital District

Notes to the Financial Statements

F. Plan Fiduciary Net Position

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(asset) (a) - (b)
Balance at December 31, 2021	\$ 58,672,535	\$ 65,243,096	\$ (6,570,561)
Changes for the year			
Service cost	4,138,067	-	4,138,067
Interest on total pension liability	4,742,504	-	4,742,504
Effect of economic demographic gains or losses	(168,015)	-	(168,015)
Effects of assumption changes or inputs	-	-	-
Refunds of contributions	(523,325)	(523,325)	-
Benefit payments	(310,420)	(310,420)	-
Administrative expense	-	(40,128)	40,128
Member contributions	-	2,123,827	(2,123,827)
Net investment income	-	(4,393,663)	4,393,663
Employer contributions	-	5,382,338	(5,382,338)
Other changes	-	993,942	(993,942)
Net changes	<u>7,878,811</u>	<u>3,232,571</u>	<u>4,646,240</u>
Balance at December 31, 2022	<u><u>\$ 66,551,346</u></u>	<u><u>\$ 68,475,667</u></u>	<u><u>\$ (1,924,321)</u></u>

Sensitivity Analysis

The following presents the net pension liability (asset) of the District, calculated using the discount rate of 7.60%, 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 (6.60%) or 1-percentage-point higher (8.60%) than the current rate.

	Current		
	1% Decrease (6.60%)	Discount Rate (7.60%)	1% Increase (8.60%)
District's net pension liability / (asset)	\$ 13,370,694	\$ (1,924,321)	\$ (13,840,696)

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, 2023, the District recognized pension expense of \$1,607,788.

At September 30, 2023, 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	\$ 697,834	\$ 371,521
Change in assumptions	3,208,049	20,670
Net difference between projected and actual earnings on pension plan investments	2,374,206	-
Contributions made subsequent to the measurement date	2,443,628	-
Totals	\$ 8,723,717	\$ 392,191

The \$2,443,628 reported as deferred outflows of resources related to the District's pension contributions made subsequent to the measurement date will be recognized as pension expense in the fiscal year ending September 30, 2024. 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,	
2024	\$ 428,487
2025	1,017,421
2026	1,155,628
2027	2,658,070
2028	628,292
Total	\$ 5,887,898

Note 11. Summary Disclosure of Significant Contingencies

Risk Management

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

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

Montgomery County Hospital District

Notes to the Financial Statements

Health Insurance

During 2023, employees of the District and MCPHD were covered by a partially self-insured health insurance plan. The District and MCPHD paid administrative fees and the cost of healthcare claims. Participating employees authorized payroll deductions to partially offset the costs paid by the District and MCPHD. All contributions were paid to a third party administrator acting on behalf of the District and MCPHD. The contract between the District and MCPHD and the third party administrator is renewable annually.

The District and MCPHD was protected against catastrophic individual and aggregate loss by stop-loss coverage up to \$125,000 per individual and \$5,613,843 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, 2023 and 2022, 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:

	Primary Government		Discretely Presented Component Unit	
	2023	2022	2023	2022
Healthcare claims, beginning of year	\$ 241,620	\$ 179,863	\$ 241,620	\$ 179,863
Incurred claims	5,976,233	4,425,766	5,976,233	4,425,766
Claim payments	(5,782,840)	(4,364,009)	(5,782,840)	(4,364,009)
Healthcare claims, end of year	\$ 435,013	\$ 241,620	\$ 435,013	\$ 241,620

Contingencies

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

Note 12. Healthcare Assistance Program

The healthcare assistance program was established by the District to provide health care services to the indigent residents of Montgomery County. The District entered into contracts with various healthcare providers to provide healthcare services to Montgomery County indigents. Qualifications for the program are based on income level, citizenship, county residency, medical need and financial resources. In conjunction with the sale of the Medical Center Hospital in Conroe (now Conroe Regional Medical Center) to Health Trust on May 26, 1993, the District entered into an Indigent Care Agreement with Health Trust and its successors. The terms of the Indigent Care Agreement ended on May 31, 2008. The Indigent Care Agreement was not renewed. As of June 1, 2008, the District is funding a voluntary estimate of medical care expenses to qualified indigents to those providers that previously were participants in the Indigent Care Agreement.

Montgomery County Hospital District

Notes to the Financial Statements

Note 13. Recent Accounting Pronouncements

GASB Statement No. 101, *Compensated Absences* (GASB 101), improves the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2023, with earlier application encouraged. GASB 101 will be implemented in the District's fiscal year 2025 financial statements and the impact has not yet been determined.

**Required Supplementary Information
(Unaudited)**

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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, 2023

Exhibit D-1

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ 42,837,449	\$ 42,837,449	\$ 41,791,707	\$ (1,045,742)
Charges for services, net	20,839,318	20,839,318	25,582,616	4,743,298
Intergovernmental	2,360,000	1,700,000	2,084,408	384,408
Investment earnings	360,000	360,000	2,343,897	1,983,897
Miscellaneous	201,706	201,706	397,790	196,084
Total revenues	66,598,473	65,938,473	72,200,418	6,261,945
EXPENDITURES				
Current:				
Administration	10,439,405	10,727,766	10,802,867	(75,101)
Healthcare assistance	6,361,082	6,378,471	5,453,402	925,069
Emergency medical services	38,958,530	38,847,348	39,817,405	(970,057)
Radio, facilities, and information technology	6,051,505	5,999,075	5,948,800	50,275
Public health and emergency preparedness	243,768	245,832	163,039	82,793
Debt service:				
Principal retirement	472,897	567,967	692,242	(124,275)
Interest and fiscal charges	89,108	120,378	120,842	(464)
Capital outlay	6,460,307	4,828,291	3,985,756	842,535
Total expenditures	69,076,602	67,715,128	66,984,353	730,775
Excess (deficiency) of revenues over (under) expenditures	(2,478,129)	(1,776,655)	5,216,065	6,992,720
OTHER FINANCING SOURCES				
Leases	713,476	988,023	735,095	(252,928)
Proceeds from sale of capital assets	48,000	48,000	110,110	62,110
Total other financing sources	761,476	1,036,023	845,205	(190,818)
Net change in fund balance	(1,716,653)	(740,632)	6,061,270	6,801,902
Fund balance - beginning	49,733,949	49,733,949	49,733,949	-
FUND BALANCE - ENDING	\$ 48,017,296	\$ 48,993,317	\$ 55,795,219	\$ 6,801,902

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 For the Last Nine Fiscal Years*

	<u>2023</u>	<u>2022</u>	<u>2021</u>
TOTAL PENSION LIABILITY			
Service cost	\$ 4,138,067	\$ 4,289,710	\$ 3,503,081
Interest	4,742,504	4,145,378	3,405,061
Effect of plan changes	-	-	-
Effect of economic/demographic (gains) or losses	(168,015)	(224,297)	653,416
Effect of assumptions changes or inputs	-	502,438	4,596,949
Refund of contributions	(523,325)	(368,100)	(139,425)
Benefit payments	(310,420)	(212,128)	(162,077)
	<hr/>	<hr/>	<hr/>
Net change in total pension liability	7,878,811	8,133,001	11,857,005
Total pension liability - beginning	58,672,535	50,539,534	38,682,529
	<hr/>	<hr/>	<hr/>
TOTAL PENSION LIABILITY - ENDING (a)	<u>\$ 66,551,346</u>	<u>\$ 58,672,535</u>	<u>\$ 50,539,534</u>
PLAN FIDUCIARY NET POSITION			
Contributions - district	\$ 5,382,338	\$ 1,990,861	\$ 1,882,768
Contributions - employee	2,123,827	2,130,891	2,015,194
Net investment income (loss)	(4,393,663)	11,431,586	4,362,576
Benefit payments	(310,420)	(212,128)	(162,077)
Refund of contributions	(523,325)	(368,100)	(139,425)
Administrative expense	(40,128)	(35,297)	(36,726)
Other	993,942	114,156	110,601
	<hr/>	<hr/>	<hr/>
Net change in plan fiduciary net position	3,232,571	15,051,969	8,032,911
Plan fiduciary net position - beginning	65,243,096	50,191,127	42,158,216
	<hr/>	<hr/>	<hr/>
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u>\$ 68,475,667</u>	<u>\$ 65,243,096</u>	<u>\$ 50,191,127</u>
NET PENSION LIABILITY (ASSET) - ENDING (a) - (b)	<u>\$ (1,924,321)</u>	<u>\$ (6,570,561)</u>	<u>\$ 348,407</u>
Plan fiduciary net position as a percentage of total pension liability	102.89%	111.20%	99.31%
Covered payroll	30,340,383	30,441,296	28,788,492
Net pension liability (asset) as a percentage of covered payroll	-6.34%	-21.58%	1.21%

*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.

Exhibit E-1

	2020	2019	2018	2017	2016	2015
\$	3,186,898	\$ 2,985,032	\$ 2,789,010	\$ 2,759,688	\$ 2,241,909	\$ 1,935,546
	2,878,563	2,458,698	2,068,859	1,662,372	1,439,974	1,105,667
	-	-	-	-	(124,742)	473,611
	448,789	(48,347)	260,230	(510,769)	(1,013,480)	827,063
	-	-	(82,680)	-	176,666	-
	(226,101)	(398,177)	(333,377)	(260,640)	(103,230)	(186,867)
	(132,193)	(68,884)	(38,637)	(26,925)	(18,562)	(6,153)
	6,155,956	4,928,322	4,663,405	3,623,726	2,598,535	4,148,867
	32,526,573	27,598,251	22,934,846	19,311,120	16,712,585	12,563,718
\$	<u>38,682,529</u>	<u>\$ 32,526,573</u>	<u>\$ 27,598,251</u>	<u>\$ 22,934,846</u>	<u>\$ 19,311,120</u>	<u>\$ 16,712,585</u>
\$	1,878,689	\$ 1,631,063	\$ 1,479,097	\$ 4,539,035	\$ 1,406,230	\$ 1,093,580
	1,851,878	1,679,036	1,524,842	1,385,264	1,333,823	1,190,523
	5,455,456	(543,548)	3,633,221	1,300,958	(197,756)	822,292
	(132,193)	(68,884)	(38,637)	(26,925)	(18,562)	(6,153)
	(226,101)	(398,177)	(333,377)	(260,640)	(103,230)	(186,867)
	(32,126)	(26,700)	(20,537)	(14,145)	(11,770)	(10,485)
	121,329	87,804	35,077	297,659	270	1,284
	8,916,932	2,360,594	6,279,686	7,221,206	2,409,005	2,904,174
	33,241,284	30,880,690	24,601,004	17,379,798	14,970,793	12,066,619
\$	<u>42,158,216</u>	<u>\$ 33,241,284</u>	<u>\$ 30,880,690</u>	<u>\$ 24,601,004</u>	<u>\$ 17,379,798</u>	<u>\$ 14,970,793</u>
\$	<u>(3,475,687)</u>	<u>\$ (714,711)</u>	<u>\$ (3,282,439)</u>	<u>\$ (1,666,158)</u>	<u>\$ 1,931,322</u>	<u>\$ 1,741,792</u>
	108.99%	102.20%	111.89%	107.26%	90.00%	89.58%
	26,455,402	23,986,225	21,783,458	19,775,929	19,054,613	17,006,833
	-13.14%	-2.98%	-15.07%	-8.43%	10.14%	10.24%

Montgomery County Hospital District
 Schedule of District Contributions to Texas County
 and District Retirement System (TCDRS)
 For the Last Nine Fiscal Years*

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Actuarially determined contribution	\$ 3,148,150	\$ 2,747,552	\$ 1,968,671
Contributions in relation to the actuarially determined contributions	<u>(3,148,150)</u>	<u>(5,247,552)</u>	<u>(1,968,671)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ (2,500,000)</u>	<u>\$ -</u>
Covered payroll	\$ 33,138,421	\$ 31,575,218	\$ 30,101,998
Contributions as a percentage of covered payroll	9.50%	16.62%	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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 1,848,678	\$ 1,680,793	\$ 1,558,054	\$ 1,552,855	\$ 1,611,799	\$ 1,306,500
<u>(1,848,678)</u>	<u>(1,855,754)</u>	<u>(1,558,054)</u>	<u>(4,385,991)</u>	<u>(1,611,799)</u>	<u>(1,306,500)</u>
<u>\$ -</u>	<u>\$ (174,961)</u>	<u>\$ -</u>	<u>\$ (2,833,136)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 28,384,921	\$ 25,719,067	\$ 22,920,977	\$ 21,414,773	\$ 19,339,917	\$ 18,236,372
6.51%	7.22%	6.80%	20.48%	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 is required to present an annual budget for approval by the board in accordance with Texas Special District Local Laws Code Chapter 1063. The District shall hold a public hearing on the proposed annual budget prior to adoption. The budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP), and any budget amendment must be approved by the Board.

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.

B. Budget to Actual Expenditures

For the fiscal year ended September 30, 2023 expenditures exceeded appropriations in the following funds due to unexpected emergency costs, increases in payroll and benefit costs, and the adoption of GASB 96:

	Final Budget	Actual Expenditures	Excess
General Fund:			
Administration	\$ 10,727,766	\$ 10,802,867	\$ (75,101)
Emergency medical services	38,847,348	39,805,091	(957,743)
Debt service	688,345	825,345	(137,000)

Montgomery County Hospital District
Notes to the Required Supplementary Information

Note 2. Pension

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 (level percentage of pay)
Amortization method	Level percentage of payroll, closed
Remaining amortization period	4.3 years (based on contribution rate calculated in 12/31/2022 valuation)
Asset valuation method	5 year smoothed market
Inflation	2.50%
Salary increases	Varies by age and service. 4.7% average over career including inflation.
Investment rate of return	7.50%, 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	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
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. 2019: New inflation, mortality and other assumptions were reflected. 2022: New investment return and inflation 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. 2018-2022: No changes in plan provisions were reflected in the Schedule.