

**Tomball Hospital Authority dba  
Tomball Regional Health Foundation**

Annual Financial Report  
June 30, 2018 and 2017

**Tomball Hospital Authority dba  
Tomball Regional Health Foundation**

June 30, 2018 and 2017

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# Financial Section

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## Independent Auditor's Report

To the Board of Directors  
Tomball Hospital Authority dba  
Tomball Regional Health Foundation  
29201 Quinn Road, Suite A  
Tomball, Texas 77375

### Report on the Financial Statements

We have audited the accompanying financial statements of net position, statements of revenues, expenses, and changes in net position and cash flows of Tomball Hospital Authority dba Tomball Regional Health Foundation (Authority), as of June 30, 2018 and 2017 and for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To The Board of Directors of  
Tomball Hospital Authority dba Tomball Regional Health Foundation

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tomball Hospital Authority dba Tomball Regional Health Foundation, as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

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

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
September 13, 2018

# Management's Discussion and Analysis



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## Management's Discussion and Analysis

### Introduction

This management's discussion and analysis of the financial performance of Tomball Hospital Authority dba Tomball Regional Health Foundation (the Authority) provides an overview of the Authority's financial and program activities for the fiscal year ended June 30, 2018. It is intended to serve as an introduction to the basic financial statements which follow this section. Please read it in conjunction with those statements.

During the fiscal year ending June 30, 2012, the Authority ceased operating a hospital or providing direct healthcare to residents within our community. The Authority's sole source of revenue is investment income from the Authority's investment portfolio resulting from the sale of the previously operated hospital. Its Mission Statement is "To promote wellness and improve health status for all residents in our communities through programs that enhance access to healthcare, preventative care and health education." We desire to create a partnership with our community and local organizations that serve healthcare and healthcare related educational needs. That desire is accomplished by funding various projects within our community that fit our mission and values.

Tomball Hospital Authority is a separate and distinct governmental entity, a political subdivision of the State of Texas, organized under Chapter 262 of the Texas Health and Safety Code. The Authority is not a 501c3. Although not a "charity", the Authority strives to meet the same standards as set forth by the BBB Wise Giving Alliance and their accreditation standards. Of their 20 published standards, 5 of those standards address fundraising which the Authority does not do. Of the remaining 15 accreditation standards, we are in compliance with all 15 of those standards with at least 65% of our total expense being spent on projects. These Accreditation Standards can be found at <http://www.give.org/for-charities/How-We-Accredit-Charities/>.

In fiscal year 2017, program fees were 71% of total operating expenses. In fiscal year 2018, program fees were 77% of total operations expenses.

As stated above, revenue for the Authority is solely dependent upon investment performance. The primary expense of the Authority is program fees.

### Financial Highlights

Total current assets increased in fiscal year 2018 by \$5,058,692 or 5%. The overall increase in cash and investments was primarily the result of improved performance of the investment portfolio. In August of 2015, the Board of Directors (the Board) approved an annual spend rate of 4% based on the rolling average of 12 quarters of quarterly market value of the investment portfolio, which was determined to be at that time \$82,850,824, or \$3,314,033. The Board authorized quarterly withdrawals from the investment portfolio in the amount of \$828,508 to support operations and projects. The Spending Policy was updated in March 2017 with a rolling average of the previous 12 quarters investment balance at \$86,642,743, a 4% spend rate of \$3,465,710, and a quarterly draw of up to \$866,427. The Spending Policy was re-evaluated in April of 2018 and the rolling average of the previous 12 quarters was determined to be \$90,659,641 yielding a 4% spend rate of \$3,626,386 and a quarterly withdrawal of \$906,596 to support projects and operations.

### Required Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) The Statements of Net Position which includes all of the Authority's assets, liabilities and components of net position; 2) The Statements of Revenues, Expenses and Changes in Net Position reflects the business-type activities of the Authority and provides information regarding income and expenses, both operating

and nonoperating, that affect the net position; and 3) The Statements of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the period using the direct method of reporting cash flows from operating, investing, and capital and noncapital financing activities, as applicable.

**Notes to the Financial Statements**

Integral to the financial statements are the notes to the basic statements. These notes provide additional information that is essential to a full understanding of the financial data provided in the basic financial statements. The Authority has prepared notes sufficient to provide the readers of these financial statements a clear picture of the Authority's financial position and insight into the results of its operations. These notes are in conformity with GAAP.

**Financial Analysis of the District**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$98,465,755 at the close of the most recent fiscal year.

**Table A-1  
Tomball Hospital Authority dba Tomball Regional Health Foundation's Net Position**

	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current assets:						
Cash and cash equivalents	\$ 278,900	-	\$ 907,159	1	\$ (628,259)	(69)
Investments	99,063,432	100	93,376,643	99	5,686,789	6
Prepaid expenses and other	90,891	-	90,729	-	162	-
<b>Total current assets</b>	<b>99,433,223</b>		<b>94,374,531</b>		<b>5,058,692</b>	
Noncurrent assets:						
Capital assets, net	-	-	11,874	-	(11,874)	(100)
<b>Total assets</b>	<b>99,433,223</b>	<b>100</b>	<b>94,386,405</b>	<b>100</b>	<b>5,046,818</b>	
Current liabilities:						
Accounts payable	390,431	40	245,544	26	144,887	59
Estimated amounts due to third-party payers	183,904	19	183,904	19	-	-
Estimated self-insurance - due within one year	-	-	101,179	10	(101,179)	(100)
<b>Total current liabilities</b>	<b>574,335</b>		<b>530,627</b>		<b>43,708</b>	
Long-term liabilities:						
Estimated self-insurance - due in more than one year	393,133	41	442,059	45	(48,926)	(11)
<b>Total liabilities</b>	<b>967,468</b>	<b>100</b>	<b>972,686</b>	<b>100</b>	<b>(5,218)</b>	
Net position:						
Net investment in capital assets	-	-	11,874	-	(11,874)	(100)
Unrestricted	98,465,755	100	93,401,845	100	5,063,910	5
<b>Total net position</b>	<b>\$ 98,465,755</b>	<b>100</b>	<b>\$ 93,413,719</b>	<b>100</b>	<b>\$ 5,052,036</b>	

The Authority's total assets of \$99,433,223 are largely comprised of current investments of \$99,063,432, or 100%. The Authority uses these investments to earn investment income and provide for program costs.

Accounts payable of \$390,431 comprise 40% of the Authority's total liabilities of \$967,468. Long-term liabilities are comprised of estimated self-insurance, \$393,133 or 41% of total liabilities, related to general and professional liability and workers' compensation. As of June 30, 2018, the Authority did not have any estimated self-insurance due within one year, which is generally included in current liabilities.

At June 30, 2018, the Authority's net position consisted entirely of unrestricted net position of \$98,465,755, which represents resources available to fund the services of the Authority next year.

The Authority's net position increased \$5,052,036 from current operations.

**Table A-2**  
**Tomball Hospital Authority dba Tomball Regional Health Foundation's Changes in Net Position**

	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Operating revenue:						
Operating revenue	\$ -	-	\$ -	-	\$ -	-
Total operating revenue	-	-	-	-	-	-
Operating expenses:						
Salaries and benefits	292,682	12	271,566	14	21,116	8
Purchased services and professional	124,150	5	151,995	8	(27,845)	(18)
Program fees	1,848,570	77	1,409,370	71	439,200	31
Supplies and other	87,589	4	83,735	4	3,854	5
Depreciation expense	11,874	-	18,929	1	(7,055)	(37)
Insurance	40,388	2	39,336	2	1,052	3
Total operating expenses	2,405,253	100	1,974,931	100	430,322	
Operating loss	(2,405,253)		(1,974,931)		(430,322)	
Nonoperating revenue (expense):						
Investment income	7,460,744		9,244,323		(1,783,579)	
Upper payment limit program expense	(134,245)		(511,073)		376,828	
Total nonoperating revenue (expense)	7,326,499		8,733,250		(1,406,751)	
Excess of revenues over expenses from continuing operations	4,921,246		6,758,319		(1,837,073)	
Discontinued operations:						
Gain (loss) from discontinued operations	130,790		(137,351)		268,141	
Change in net position	5,052,036		6,620,968		(1,568,932)	
Beginning net position	93,413,719		86,792,751		6,620,968	
<b>Ending net position</b>	<b>\$ 98,465,755</b>		<b>\$ 93,413,719</b>		<b>\$ 5,052,036</b>	

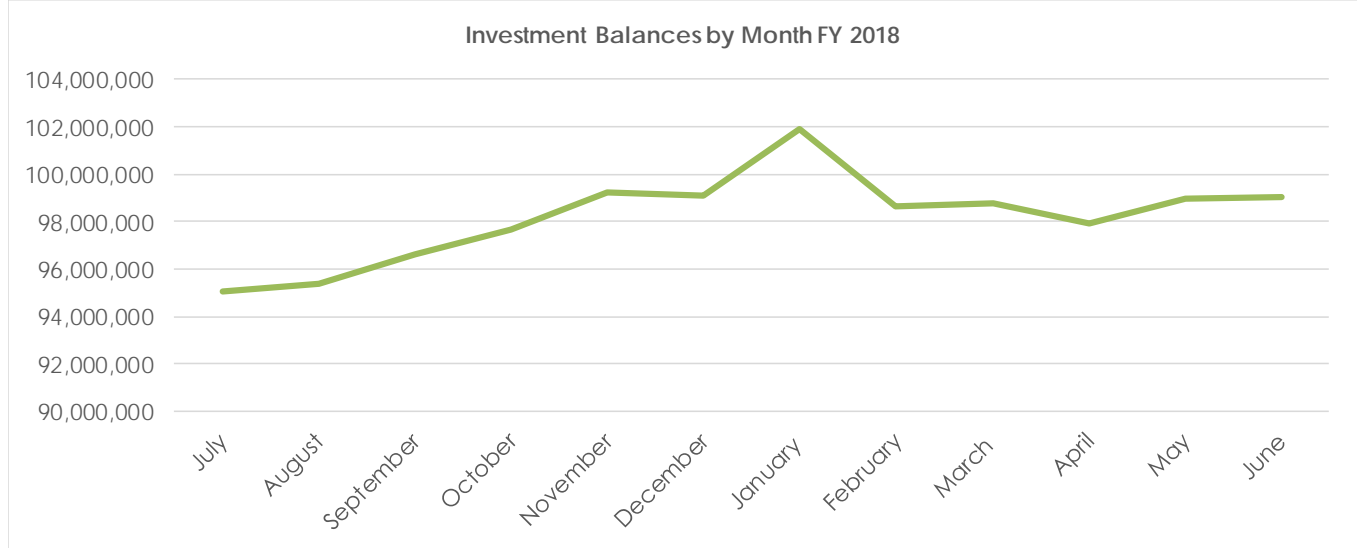
The Authority's total revenues of \$7,460,744 were comprised entirely of nonoperating revenues related to interest, dividends and increases in fair value of investments. Total operating expenses were \$2,405,253, which consisted primarily of salaries and benefits of \$292,682, or 12% of total operating expenses, and program fees of \$1,848,570, or 77% of total operating expenses.

## Investment Portfolio Performance

Investment performance for fiscal year 2018 was very favorable to the portfolio due to market conditions and appropriate investment categories that exceeded expectations as noted in Table A-3 below for fiscal year 2018.

**Table A-3**

### Tomball Hospital Authority dba Tomball Regional Health Foundation's Investment Portfolio Performance



### Program Fees

The Authority spent \$1,848,570 and \$1,409,370 during fiscal year 2018 and fiscal year 2017, respectively, on the following programs:

Program Description	2018	2017
Tomagwa Dental Program	\$ 512,826	\$ 548,777
Lone Star College Foundation	377,908	402,332
Tomball ISD	124,707	-
Tomagwa - Medical Clinic	120,000	120,000
JoyRide Center	104,934	6,889
Tomagwa Projects	81,795	-
Tomagwa - Harvey Relief Grant	74,698	-
Kleinwell Healthy Living Program	69,728	-
American Heart Association - CPR Training	68,116	18,713
Meals on Wheels	57,666	51,895
Northwest Assistant Ministry Meals	43,171	56,250
Montgomery Co. Youth Services	42,883	20,191
Concordia Lutheran High School	32,220	-
Boys & Girls Country	25,000	22,000
Be An Angel, Inc.	25,000	-
TEAM Dental	24,196	-
The Tomball Lions Club	20,400	-
Tomagwa Grant Writer	15,822	3,327
The Rose (Mammography)	15,000	15,000
Sure Therapeutic Horsemanship	10,000	-
Senior Rides and More	2,500	-
City of Tomball EVIEW Project	-	8,050
Shattered Lives Program	-	5,000
Wheelchair Transport Service	-	26,025
Tomball PD Temperature Cards	-	1,241
Flu Shot Program	-	1,472
Community Health Needs Assessment	-	64,610
American Lung Association - Asthma Training	-	31,625
Klein ISD Body Project	-	5,973
<b>Total program fees</b>	<b>\$ 1,848,570</b>	<b>\$ 1,409,370</b>

Additionally, the Authority paid \$134,245 in fiscal year 2018 for uncompensated care costs (upper payment limit program expense) related to the Texas Healthcare Transformation and Quality Improvement Program, which benefits Tomball Regional Medical Center.

**Contacting the Authority**

This report is designed to provide our community with a general overview of the Authority's finances and activities. Questions about this report and request for additional financial information should be directed to the Chief Executive Officer by telephoning 832.559.5513.

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# Basic Financial Statements



**Tomball Hospital Authority dba  
Tomball Regional Health Foundation**  
Statements of Net Position  
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 278,900	\$ 907,159
Investments	99,063,432	93,376,643
Prepaid expenses and other	90,891	90,729
	<u>99,433,223</u>	<u>94,374,531</u>
Total current assets	99,433,223	94,374,531
Noncurrent assets:		
Capital assets, net	-	11,874
	<u>-</u>	<u>11,874</u>
Total noncurrent assets	-	11,874
Total assets	99,433,223	94,386,405
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	390,431	245,544
Estimated amounts due to third-party payers	183,904	183,904
Estimated self-insurance - due within one year	-	101,179
	<u>574,335</u>	<u>530,627</u>
Total current liabilities	574,335	530,627
Long term liabilities:		
Estimated self-insurance - due in more than one year	393,133	442,059
	<u>393,133</u>	<u>442,059</u>
Total noncurrent liabilities	393,133	442,059
Total liabilities	967,468	972,686
<b>NET POSITION</b>		
Net investment in capital assets	-	11,874
Unrestricted	98,465,755	93,401,845
	<u>98,465,755</u>	<u>93,401,845</u>
<b>TOTAL NET POSITION</b>	<u>\$ 98,465,755</u>	<u>\$ 93,413,719</u>

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

**Tomball Hospital Authority dba  
Tomball Regional Health Foundation**

Statements of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUE</b>	\$ -	\$ -
<b>OPERATING EXPENSES</b>		
Salaries and benefits	292,682	271,566
Purchased services and professional fees	124,150	151,995
Program fees	1,848,570	1,409,370
Supplies and other	87,589	83,735
Depreciation expense	11,874	18,929
Insurance	40,388	39,336
	<u>2,405,253</u>	<u>1,974,931</u>
Total operating expenses		
	<u>2,405,253</u>	<u>1,974,931</u>
Operating loss	(2,405,253)	(1,974,931)
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Investment income	7,460,744	9,244,323
Upper payment limit program expense	(134,245)	(511,073)
	<u>7,326,499</u>	<u>8,733,250</u>
Total nonoperating revenue (expense)		
	<u>7,326,499</u>	<u>8,733,250</u>
Excess of revenues over expenses from continuing operations	4,921,246	6,758,319
<b>DISCONTINUED OPERATIONS</b>		
Gain (loss) from discontinued operations	130,790	(137,351)
	<u>130,790</u>	<u>(137,351)</u>
Change in net position	5,052,036	6,620,968
Net position - beginning	93,413,719	86,792,751
	<u>93,413,719</u>	<u>86,792,751</u>
<b>NET POSITION - ENDING</b>	<u>\$ 98,465,755</u>	<u>\$ 93,413,719</u>

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

**Tomball Hospital Authority dba  
Tomball Regional Health Foundation**  
Statements of Cash Flows  
For the Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and contractors	\$ (1,975,287)	\$ (1,669,104)
Payments for salaries and benefits	(292,682)	(271,566)
	<u>(2,267,969)</u>	<u>(1,940,670)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Upper payment limit program payments	(134,245)	(511,073)
	<u>(134,245)</u>	<u>(511,073)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends on investments	1,713,411	1,700,208
Purchase of investments	(49,524,154)	(56,040,762)
Proceeds from disposition of investments	49,584,698	56,861,772
	<u>1,773,955</u>	<u>2,521,218</u>
Net cash provided by investing activities	<u>1,773,955</u>	<u>2,521,218</u>
Net increase (decrease) in cash and cash equivalents	(628,259)	69,475
Cash and cash equivalents - beginning of period	907,159	837,684
	<u>907,159</u>	<u>837,684</u>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u>\$ 278,900</u>	<u>\$ 907,159</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (2,405,253)	\$ (1,974,931)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Gain (loss) from discontinued operations	130,790	(137,351)
Depreciation expense	11,874	18,929
(Increase) decrease in prepaid expenses and other	(162)	3,634
Increase (decrease) in accounts payable	144,887	59,792
Increase (decrease) in amounts due to third-party payers	-	183,811
Increase (decrease) in estimated self-insurance	(150,105)	(94,554)
	<u>137,284</u>	<u>34,261</u>
Total adjustments	<u>137,284</u>	<u>34,261</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>\$ (2,267,969)</u>	<u>\$ (1,940,670)</u>

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

# **Tomball Hospital Authority dba Tomball Regional Health Foundation**

## Notes to the Financial Statements

### **Note 1. Summary of Significant Accounting Policies**

Tomball Hospital Authority dba Tomball Regional Health Foundation (the Authority), was organized under the *Texas Hospital Authority Act* in 1973 as a body politic and corporate and political subdivision of the State of Texas. Five of the Authority's eleven Board of Directors (the Board) are appointed by Tomball's City Council. The remaining six members are appointed by the Board.

Prior to October 1, 2011, the Authority, formerly Tomball Hospital Authority dba Tomball Regional Hospital, owned and operated Tomball Regional Hospital (the Hospital), an acute care hospital located in Tomball, Texas. The Authority primarily earned revenues by providing inpatient, outpatient and emergency care services to patients in Tomball, Texas and surrounding areas.

Effective October 1, 2011, the Authority sold the interest in its Hospital operations and substantially all of its assets, including its interests in Tomball Hospital Holdings (THH), Tomball Regional Medical Center Provider Network and an interest in Tomball Ambulatory Surgery Center dba Medial Complex Surgical Center (TASC) to Tomball Texas Holdings, LLC (TTH), a subsidiary of Community Health Systems, Inc. (CHS). A portion of the proceeds were used to pay in full the outstanding long-term debt of the Authority. The Authority aims to use the remaining resources to improve the access to and quality of health care for residents of Tomball, Texas and the surrounding areas.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Authority's accounting policies are described below.

#### **A. Reporting Entity**

In evaluating how to define the Authority for financial reporting purposes, management has applied certain criteria defined by generally accepted accounting principles. The basic criterion used was whether the governing body has ability to exercise oversight responsibility over another entity, manifested by significant financial interdependency, the selection of governing authorities, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used was whether special financing relationships exist with other entities, regardless of whether the Authority is able to exercise oversight responsibilities. After applying these criteria, it was determined that no component units require inclusion as part of the reporting entity of the Authority.

#### **B. Basis of Presentation**

The Authority meets the requirements to report as a special-purpose government. The Authority presents its financial activities and financial position entirely through a set of enterprise fund financial statements. These statements include the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position and Statements of Cash Flows.

The Statements of Net Position present assets and liabilities in a classified format with both assets and liabilities divided into current and noncurrent portions. Current assets and liabilities are expected to generate and use cash, respectively, within twelve months of the end of the fiscal period. Long-term assets and liabilities are not expected to generate or use cash within twelve months of the end of the fiscal period. The Statements of Revenues, Expenses, and Changes in Net Position distinguish between operating revenues and expenses, nonoperating revenues and expenses, and discontinued operations.

# Tomball Hospital Authority dba Tomball Regional Health Foundation

## Notes to the Financial Statements

### C. Basis of Accounting

Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when liabilities are incurred, regardless of when related cash flows take place.

### D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

### E. Assets, Liabilities and Net Position

#### 1. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and deposits with depository banks.

#### 2. Investments and Investment Income

Investments for the Authority are reported at fair value.

Investment income includes dividend and interest income, realized gains and losses on investments, and the net change in fair value (unrealized gains and losses) on investments.

#### 3. Capital Assets

Capital assets, which includes furniture and equipment, are capitalized and reported in the financial statements 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 an item or increase its estimated useful life. Donated capital assets are reported at acquisition value at the date of donation. Furniture and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	3-20 years

#### 4. Net Position and Flow Assumption

Net position of the Authority is classified in two components, net investment in capital assets and unrestricted. Net investment in capital assets consists of capital assets net of accumulated depreciation. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the statements of net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

# Tomball Hospital Authority dba Tomball Regional Health Foundation

## Notes to the Financial Statements

### F. Revenues and Expenses

#### 1. *Operating and Nonoperating Revenues and Expenses*

The Statements of Revenues, Expenses, and Changes in Net Position distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues include exchange-like transactions, when applicable. Operating expenses are considered to flow from the Authority's primary business of administering program commitments and funding agreements to awardees, and are presented by nature. Nonoperating revenues and expenses flow from investment activities of the Authority, which is considered the primary source of revenue, and government mandated non-exchange transactions related to an upper payment limit program expense.

#### 2. *Upper Payment Limit Program Expense*

On December 12, 2011, the United States Department of Health and Human Services approved a new Medicaid Section 1115(a) demonstration entitled "Texas Health Transformation and Quality Improvement Program" (the Waiver). The Waiver expands existing Medicaid managed-care programs and established two funding pools that will assist providers with uncompensated care costs and promote health system transformation. The Authority submits intergovernmental transfer payments to the federal government on behalf of Tomball Regional Hospital. During the years ended June 30, 2018 and 2017, the Authority submitted approximately \$134,245 and \$511,073, respectively, in intergovernmental transfer payments on behalf of the Hospital, and are included in the Statements of Revenues, Expenses, and Changes in Net Position under the title "*Upper payment limit program expense*".

#### 3. *Discontinued Operations*

Gains and losses from discontinued operations include payments related to agreements with third-party payers when the Authority owned the hospital assets prior to October 1, 2011. These agreements provided for payments to the Authority at amounts different from its established rates. Net patient service revenue was reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and included estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments were considered in the recognition of revenue on an estimated basis in the period the related services were rendered and such estimated amounts were revised in the future periods as adjustments became known. These payment arrangements included:

##### Medicare

Inpatient and substantially all outpatient services rendered to Medicare program beneficiaries were paid at prospectively determined rates. These rates varied according to a patient classification system that is based on clinical, diagnostic and other factors. The Authority was reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary.

##### Medicaid

Inpatient services were paid based on a prospective payment system. Most outpatient services rendered to Medicaid program beneficiaries were reimbursed under a cost reimbursement methodology. The Authority was reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary.

##### Workers' Compensation

Workers' compensation claims incurred prior to disposition of the hospital assets are the responsibility of the Authority. Until those claims are fully resolved, the Authority will continue to include any adjustments related to workers' compensation reserves.

# **Tomball Hospital Authority dba Tomball Regional Health Foundation**

## Notes to the Financial Statements

### **4. *Income Taxes***

As a political subdivision under the laws of the State of Texas, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority may be subject to federal income tax on any unrelated business taxable income.

## **Note 2. Deposits and Investments**

### **Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. In accordance with the Public Funds Investment Act, the Board of Directors has enacted deposit policies to ensure compliance with state laws regarding the deposit of Authority funds and maintains a formal letter of credit agreement with a custodial bank that provides for collateralization of funds in accordance with state and federal statutes.

As of June 30, 2018 and 2017, the Authority's bank deposit balances of \$355,653 and \$925,318, respectively, were not exposed to custodial credit risk because they were insured and collateralized with a letter of credit from Atlanta Federal Home Loan Bank.

### **Investments**

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U. S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. Pursuant to the passing of Senate Bill 233 on September 1, 2013, a hospital authority that no longer owns or operates a hospital and is using the remaining assets to promote public health and general welfare initiatives can invest the remaining assets as provided by Chapter 2256 Government Code, the "Public Funds Investment Act", and Property Code, Title 9, Subtitle B, the "Texas Trust Code". The Authority modified their investment policy during the fiscal year ending June 30, 2014, as Senate Bill 233 allowed them to expand the investment portfolio to include U.S. and global equities and fixed income securities.

# Tomball Hospital Authority dba Tomball Regional Health Foundation

## Notes to the Financial Statements

The Authority's investment balances, level of fair values, and weighted average maturity of such investments are as follows:

Investment Type	Investments	Fair Value Measurements (Level 1)	Percent of Total Investments	Weighted Average Maturity (Days)
June 30, 2018				
Investments subject to fair value:				
Money market mutual funds	\$ 2,662,163	\$ 2,662,163	3%	39
Equity securities:				
U.S. equity securities	38,149,846	38,149,846	38%	1
Global equity securities	13,401,189	13,401,189	14%	1
Fixed income mutual funds:				
U.S. fixed income non-government/ agency	10,915,799	10,915,799	11%	1
Global fixed income	5,563,085	5,563,085	6%	1
Alternate investments	18,081,440	18,081,440	18%	1
Real estate investment trusts	10,289,910	10,289,910	10%	1
<b>Total value</b>	<b>\$ 99,063,432</b>	<b>\$ 99,063,432</b>	<b>100%</b>	
<b>Portfolio weighted average maturity</b>				<b>1</b>
June 30, 2017				
Investments subject to fair value:				
Money market mutual funds	\$ 1,189,322	\$ 1,189,322	1%	35
Equity securities:				
U.S. equity securities	31,287,440	31,287,440	34%	1
Global equity securities	15,200,519	15,200,519	16%	1
Fixed income mutual funds:				
U.S. fixed income non-government/ agency	14,344,971	14,344,971	15%	1
Global fixed income	5,568,802	5,568,802	6%	1
Alternate investments	16,822,344	16,822,344	18%	1
Real estate investment trusts	8,963,245	8,963,245	10%	1
<b>Total value</b>	<b>\$ 93,376,643</b>	<b>\$ 93,376,643</b>	<b>100%</b>	
<b>Portfolio weighted average maturity</b>				<b>1</b>



# Tomball Hospital Authority dba Tomball Regional Health Foundation

## Notes to the Financial Statements

### Recurring Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

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

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

The Authority has the following recurring fair value measurements as of June 30, 2018 and 2017:

*Money Market Mutual funds* classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

*Equity Securities* classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

*Fixed Income Securities* are classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

*Alternative investments* are classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

*Real Estate Investment Trusts* are classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

### Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits its investment portfolio to a maximum weighted-average maturity of two years.

### Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority's policy to limit its investments in money market mutual funds to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2018 and 2017, the Authority's investments in money market mutual funds were rated "AAAm" by Standard & Poor's. Equity securities, fixed income, alternate investments and real estate investment trusts are not subject to NRSRO ratings; however, the Authority will seek diversification by asset class in order to limit credit risk.

### Concentration of Credit Risk

The Authority places no limit on the amount that may be invested in any one issuer.

# Tomball Hospital Authority dba Tomball Regional Health Foundation

## Notes to the Financial Statements

### Custodial Credit Risk

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are held by the Authority's agent in the Authority's name for the benefit of the Authority.

Investment income for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Interest and dividend income	\$ 1,713,411	\$ 1,700,133
Net realized and unrealized gains (losses)	5,747,333	7,544,190
<b>Total investment income (loss)</b>	<b>\$ 7,460,744</b>	<b>\$ 9,244,323</b>

### Note 3. Capital Assets

Capital assets activity for the years ended June 30, 2018 and 2017 was as follows:

	2018			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets being depreciated:				
Furniture and equipment	\$ 94,642	\$ -	\$ -	\$ 94,642
Total capital assets being depreciated	94,642	-	-	94,642
Less accumulated depreciation for:				
Furniture and equipment	(82,768)	(11,874)	-	(94,642)
Total accumulated depreciation	(82,768)	(11,874)	-	(94,642)
Total capital assets being depreciated, net	11,874	(11,874)	-	-
<b>Total capital assets, net</b>	<b>\$ 11,874</b>	<b>\$ (11,874)</b>	<b>\$ -</b>	<b>\$ -</b>
	2017			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Furniture and equipment	\$ 94,642	\$ -	\$ -	\$ 94,642
Total capital assets being depreciated	94,642	-	-	94,642
Less accumulated depreciation for:				
Furniture and equipment	(63,839)	(18,929)	-	(82,768)
Total accumulated depreciation	(63,839)	(18,929)	-	(82,768)
Total capital assets being depreciated, net	30,803	(18,929)	-	11,874
<b>Total capital assets, net</b>	<b>\$ 30,803</b>	<b>\$ (18,929)</b>	<b>\$ -</b>	<b>\$ 11,874</b>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$11,874 and \$18,929, respectively.

# Tomball Hospital Authority dba Tomball Regional Health Foundation

## Notes to the Financial Statements

### Note 4. Risk Management

#### General and Professional Liability – Self Insured

As a unit of government covered by the Texas Tort Claims Act (the Act), the Authority's liability for general and malpractice claims is limited to \$100,000 per person and \$30,000 per occurrence, with no annual limit. The Authority is self-insured for amounts not limited by the Act. Losses from asserted and unasserted claims identified under the Authority's incident reporting system are accrued based on estimates that incorporate the Authority's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued malpractice and general liability losses have been estimated by professional insurance consultants. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

#### Workers' Compensation – Self insured

The Authority is self-insured for workers' compensation claims costs. A provision is accrued for workers' compensation claims including both claims reported and claims incurred, but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Authority's estimate will change by a material amount in the near term.

Activity for the Authority's self-insured liabilities for the years ending June 30, 2018 and 2017 are summarized as follows:

	General and Professional Liability	Workers' Compensation	Total
June 30, 2018			
Balance, beginning of year	\$ 100,000	\$ 443,238	\$ 543,238
Changes in estimates for claims incurred in prior years	-	(130,381)	(130,381)
Claims and expenses paid	-	(19,724)	(19,724)
<b>Balance, end of year</b>	<b>\$ 100,000</b>	<b>\$ 293,133</b>	<b>\$ 393,133</b>
Due within one year	\$ -	\$ -	\$ -
Due in more than one year	100,000	293,133	393,133
June 30, 2017			
Balance, beginning of year	\$ 100,000	\$ 537,792	\$ 637,792
Changes in estimates for claims incurred in prior years	-	6,625	6,625
Claims and expenses paid	-	(101,179)	(101,179)
<b>Balance, end of year</b>	<b>\$ 100,000</b>	<b>\$ 443,238</b>	<b>\$ 543,238</b>
Due within one year	\$ -	\$ 101,179	\$ 101,179
Due in more than one year	100,000	342,059	442,059

# Tomball Hospital Authority dba Tomball Regional Health Foundation

## Notes to the Financial Statements

### Note 5. Operating Lease

A non-cancellable operating lease for the Authority's office expires on October 31, 2022. Rental payments include base rent plus additional items. Rental expense for fiscal years 2018 and 2017 were \$48,000 and \$48,000, respectively.

Future minimum lease payments at June 30, 2018 are as follows:

Fiscal year		
2019	\$	48,000
2020		48,000
2021		48,000
2022		48,000
2023		16,000
		<hr/>
<b>Future minimum lease payments</b>	<b>\$</b>	<b>208,000</b>

### Note 6. Contingencies

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations may be in areas not covered by the Authority's self-insurance program or by commercial insurance (discussed in Note 4); for example, allegations regarding employment practices or performance on contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.