

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

Annual Financial Report
June 30, 2017 and 2016

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

June 30, 2017 and 2016

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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 statement of net position, statement of revenues, expenses, and change in net position and cash flows of Tomball Hospital Authority dba Tomball Regional Health Foundation (Authority), as of and for the year then ended June 30, 2017, 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, 2017, and the change in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

2016 Financial Statements – Unmodified

The financial statements of Tomball Hospital Authority dba Tomball Regional Health Foundation for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on December 1, 2016.

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
October 16, 2017

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, 2017. 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 2016, program fees were 59% of total operating expenses. In fiscal year 2017, program fees were 71% 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

Cash and investments increased in fiscal year 2017 by \$6,792,655 or 8%. 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 re-evaluated in March of 2017 and the rolling average of the previous 12 quarters was determined to be \$86,642,743 yielding a 4% spend rate of \$3,465,710 and a quarterly withdrawal of \$866,427 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 \$93,413,719 at the close of the most recent fiscal year.

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

	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current assets:						
Cash and cash equivalents	\$ 907,159	1	\$ 837,684	1	\$ 69,475	8
Investments	93,376,643	99	86,653,463	99	6,723,180	8
Accrued interest receivable	-	-	75	-	(75)	(100)
Prepaid expenses and other	90,729	-	94,363	-	(3,634)	(4)
Total current assets	<u>94,374,531</u>		<u>87,585,585</u>		<u>6,788,946</u>	
Noncurrent assets:						
Capital assets, net	11,874	-	30,803	-	(18,929)	(61)
Total assets	<u>94,386,405</u>	<u>100</u>	<u>87,616,388</u>	<u>100</u>	<u>6,770,017</u>	
Current liabilities:						
Accounts payable	245,544	26	185,752	23	59,792	32
Estimated amounts due to third-party payers	183,904	19	93	-	183,811	197,646
Estimated self-insurance - due within one year	101,179	10	151,341	18	(50,162)	(33)
Total current liabilities	<u>530,627</u>		<u>337,186</u>		<u>193,441</u>	
Long-term liabilities:						
Estimated self-insurance - due in more than one year	442,059	45	486,451	59	(44,392)	(9)
Total liabilities	<u>972,686</u>	<u>100</u>	<u>823,637</u>	<u>100</u>	<u>149,049</u>	
Net position:						
Net investment in capital assets	11,874	-	30,803	-	(18,929)	(61)
Unrestricted	93,401,845	100	86,761,948	100	6,639,897	8
Total net position	<u>\$ 93,413,719</u>	<u>100</u>	<u>\$ 86,792,751</u>	<u>100</u>	<u>\$ 6,620,968</u>	

The Authority’s total assets of \$94,386,405 are largely comprised of current investments of \$93,376,643, or 99%. The Authority uses these investments to earn investment income and provide for program costs.

Accounts payable of \$245,544 comprise 26% of the Authority's total liabilities of \$972,686. Long-term liabilities are comprised of estimated self-insurance, \$442,059 or 45% of total liabilities, related to general and professional liability and workers' compensation. The portion of estimated self-insurance due within one year, totaling \$101,179, is included in current liabilities.

The largest portion of the Authority's net position is unrestricted net position of \$93,401,845, which represents resources available to fund the services of the Authority next year.

The Authority's net position increased \$6,620,968 from current operations.

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

	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Operating revenues:						
OPERATING REVENUE	\$ -	-	\$ 6,615	100	\$ (6,615)	(100)
Total operating revenues	-	-	6,615	100	(6,615)	
Operating expenses:						
Salaries and benefits	271,566	14	270,363	19	1,203	-
Purchased services and professional	151,995	8	183,715	13	(31,720)	(17)
Program fees	1,409,370	71	818,304	59	591,066	72
Supplies and other	83,735	4	77,280	5	6,455	8
Depreciation expense	18,929	1	18,928	1	1	-
Insurance	39,336	2	42,061	3	(2,725)	(6)
Total operating expenses	1,974,931	100	1,410,651	100	564,280	
Operating loss	(1,974,931)		(1,404,036)		(570,895)	
Nonoperating revenues (expenses):						
Investment income (loss)	9,244,323		(403,392)		9,647,715	
Upper payment limit program expense	(511,073)		-		(511,073)	
Total nonoperating revenues (expenses)	8,733,250		(403,392)		9,136,642	
Excess (deficiency) of revenues over expenses from continuing operations	6,758,319		(1,807,428)		8,565,747	
Discontinued operations:						
Loss from discontinued operations	(137,351)		(265,623)		128,272	
Change in net position	6,620,968		(2,073,051)		8,694,019	
Beginning net position	86,792,751		88,865,802		(2,073,051)	
Ending net position	\$ 93,413,719		\$ 86,792,751		\$ 6,620,968	

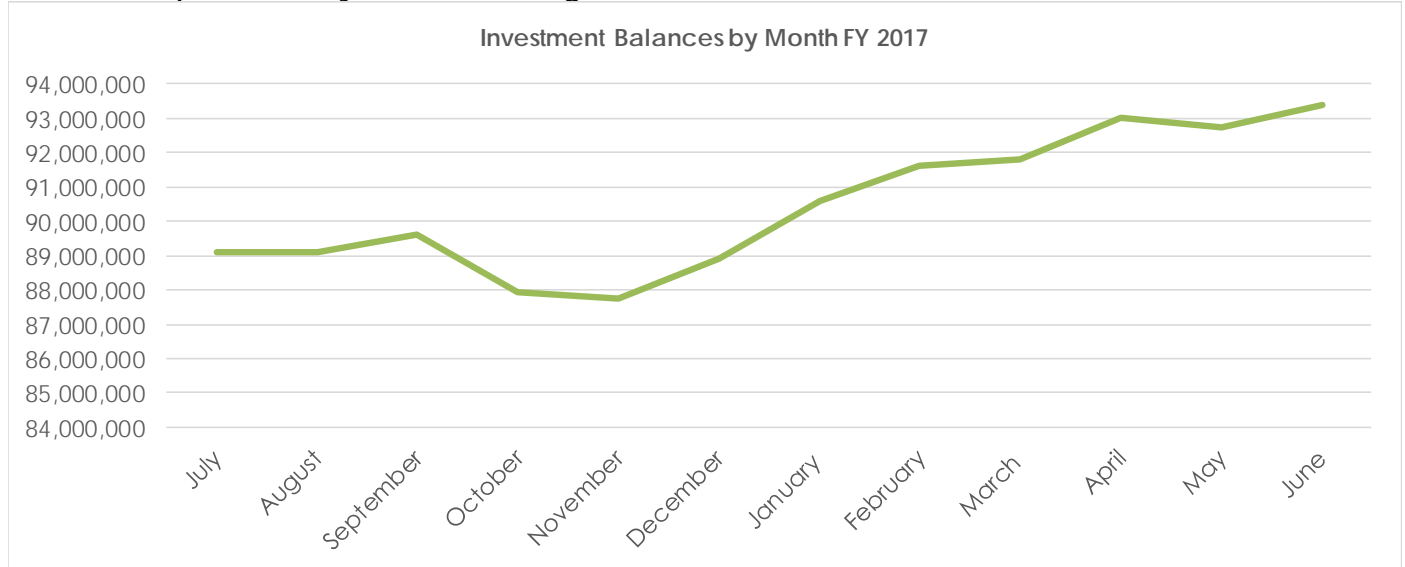
The Authority's total revenues of \$9,244,323 were comprised entirely of nonoperating revenues related to interest, dividends and increases in fair value of investments. Total operating expenses were \$1,974,931, which consisted primarily of salaries and benefits of \$271,566, or 14% of total operating expenses, and program fees of \$1,409,370, or 71% of total operating expenses.

Investment Portfolio Performance

Investment performance for fiscal year 2017 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 2017.

Table A-3

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



Program Fees

The Authority spent \$1,409,370 and \$818,304 during fiscal year 2017 and fiscal year 2016, respectively, on the following programs:

Program Description	2017	2016
TOMAGWA Dental Program	\$ 548,777	\$ 501,752
Lone Star College Foundation	402,332	63,000
TOMAGWA Medical Clinic	120,000	-
Community Health Needs Assessment	64,610	-
Northwest Assistant Ministry Meals	56,250	-
Meals on Wheels	51,895	39,921
American Lung Association Asthma in School	31,625	-
Wheelchair Transport Service	26,025	61,318
Boys and Girls Country	22,000	-
Montgomery County Youth Services	20,191	-
American Heart Association CPR in Schools	18,713	-
The Rose (Mammography)	15,000	15,000
City of Tomball EVIEW Project	8,050	8,050
Joy Ride Center	6,889	-
Klein ISDD Body Project	5,973	-
Shattered Lives	5,000	20,000
TOMAGWA Grant Writer	3,327	-
Flu Shot Program	1,472	-
Tomball Police Department	1,241	-
Camp Blessing	-	19,763
Lone Star College Pharmacy Program	-	89,500
Total program fees	\$ 1,409,370	\$ 818,304

Additionally, the Authority paid \$511,073 in fiscal year 2017 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, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 907,159	\$ 837,684
Investments	93,376,643	86,653,463
Accrued interest receivable	-	75
Prepaid expenses and other	90,729	94,363
Total current assets	<u>94,374,531</u>	<u>87,585,585</u>
Noncurrent assets:		
Capital assets, net	11,874	30,803
Total noncurrent assets	<u>11,874</u>	<u>30,803</u>
Total assets	<u>94,386,405</u>	<u>87,616,388</u>
 LIABILITIES		
Current liabilities:		
Accounts payable	245,544	185,752
Estimated amounts due to third-party payers	183,904	93
Estimated self-insurance - due within one year	101,179	151,341
Total current liabilities	<u>530,627</u>	<u>337,186</u>
Long term liabilities:		
Estimated self-insurance - due in more than one year	442,059	486,451
Total noncurrent liabilities	<u>442,059</u>	<u>486,451</u>
Total liabilities	<u>972,686</u>	<u>823,637</u>
 NET POSITION		
Net investment in capital assets	11,874	30,803
Unrestricted	93,401,845	86,761,948
 TOTAL NET POSITION	 <u>\$ 93,413,719</u>	 <u>\$ 86,792,751</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE	\$ -	\$ 6,615
OPERATING EXPENSES		
Salaries and benefits	271,566	270,363
Purchased services and professional fees	151,995	183,715
Program fees	1,409,370	818,304
Supplies and other	83,735	77,280
Depreciation expense	18,929	18,928
Insurance	39,336	42,061
Total operating expenses	<u>1,974,931</u>	<u>1,410,651</u>
Operating loss	(1,974,931)	(1,404,036)
NONOPERATING REVENUE (EXPENSE)		
Investment income (loss)	9,244,323	(403,392)
Upper payment limit program expense	(511,073)	-
Total nonoperating revenue (expense)	<u>8,733,250</u>	<u>(403,392)</u>
Excess (deficiency) of revenues over expenses from continuing operations	6,758,319	(1,807,428)
DISCONTINUED OPERATIONS		
Loss from discontinued operations	<u>(137,351)</u>	<u>(265,623)</u>
Change in net position	6,620,968	(2,073,051)
Net position - beginning	<u>86,792,751</u>	<u>88,865,802</u>
NET POSITION - ENDING	<u>\$ 93,413,719</u>	<u>\$ 86,792,751</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and contractors	\$ (1,669,104)	\$ (1,360,979)
Payments for salaries and benefits	(271,566)	(270,363)
Other receipts, net	-	6,615
Net cash used by operating activities	<u>(1,940,670)</u>	<u>(1,624,727)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Upper payment limit program payments	(511,073)	-
Net cash used noncapital financing activities	<u>(511,073)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	1,700,208	3,023,273
Purchase of investments	(56,040,762)	(102,830,149)
Proceeds from disposition of investments	56,861,772	101,464,581
Net cash provided by investing activities	<u>2,521,218</u>	<u>1,657,705</u>
Net increase in cash and cash equivalents	69,475	32,978
Cash and cash equivalents - beginning of period	<u>837,684</u>	<u>804,706</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 907,159</u>	<u>\$ 837,684</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,974,931)	\$ (1,404,036)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Loss from discontinued operations	(137,351)	(265,623)
Depreciation expense	18,929	18,928
(Increase) decrease in prepaid expenses and other	3,634	5,435
Increase (decrease) in accounts payable	59,792	(57,150)
Increase (decrease) in amounts due to third-party payers	183,811	(2,045)
Increase (decrease) in estimated self-insurance	(94,554)	79,764
Total adjustments	<u>34,261</u>	<u>(220,691)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (1,940,670)</u>	<u>\$ (1,624,727)</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. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Furniture and equipment is depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
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, 2017 and 2016, the Authority submitted approximately \$511,073 and \$0, 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.

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.

Tomball Hospital Authority dba Tomball Regional Health Foundation

Notes to the Financial Statements

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, 2017, the Authority's deposit balances of \$925,318 were not exposed to custodial credit risk because it was insured and collateralized with a letter of credit from Atlanta Federal Home Loan Bank. As of June 30, 2016, none of the Authority's deposits exceeded federally insured limits or were uncollateralized.

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.

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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, 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:				
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
Total value	\$ 93,376,643	\$ 93,376,643	100%	
Portfolio weighted average maturity				1
June 30, 2016				
Investments subject to fair value:				
Money market mutual funds	\$ 3,073,334	\$ 3,073,334	4%	1
Equity securities:				
U.S. equity securities	27,802,383	27,802,383	31%	1
Global equity securities	17,798,808	17,798,808	21%	1
Fixed income:				
U.S. fixed income non-government / agency	14,914,893	14,914,893	17%	1
Global fixed income	3,580,183	3,580,183	4%	1
Alternate investments	9,983,815	9,983,815	12%	1
Real estate investment trusts	9,500,047	9,500,047	11%	1
Total value	\$ 86,653,463	\$ 86,653,463	100%	
Portfolio weighted average maturity				1

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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, 2017 and 2016:

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). Equity securities, fixed income, alternate investments and real estate investment trusts are not subject to NRSRO ratings. At June 30, 2017 and 2016, the Authority's investments in money market mutual funds were rated AAAM by Standard & Poor's. At June 30, 2017 and 2016, the Authority's investments in U.S. agencies' obligations not directly guaranteed by the U.S. Government were rated "AA+" by Standard & Poor's.

Concentration of Credit Risk

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

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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, 2017 and 2016 consisted of the following:

	2017	2016
Interest and dividend income	\$ 1,700,133	\$ 3,007,534
Net realized and unrealized gains (losses)	7,544,190	(3,410,926)
Total investment income (loss)	\$ 9,244,323	\$ (403,392)

Note 3. Capital Assets

Capital assets activity for the years ended June 30, 2017 and 2016 was as follows:

	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
Total capital assets, net	\$ 30,803	\$ (18,929)	\$ -	\$ 11,874
	2016			
	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	(44,911)	(18,928)	-	(63,839)
Total accumulated depreciation	(44,911)	(18,928)	-	(63,839)
Total capital assets being depreciated, net	49,731	(18,928)	-	30,803
Total capital assets, net	\$ 49,731	\$ (18,928)	\$ -	\$ 30,803

Depreciation expense for the years ended June 30, 2017 and 2016 was \$18,929 and \$18,928, respectively.

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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, 2017 and 2016 are summarized as follows:

	General and Professional Liability	Workers' Compensation	Total
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)
Balance, end of year	\$ 100,000	\$ 443,238	\$ 543,238
Due within one year	\$ -	\$ 101,179	\$ 101,179
Due in more than one year	\$ 100,000	\$ 342,059	\$ 442,059
June 30, 2016			
Balance, beginning of year	\$ 100,000	\$ 458,028	\$ 558,028
Changes in estimates for claims incurred in prior years	-	270,743	270,743
Claims and expenses paid	-	(190,979)	(190,979)
Balance, end of year	\$ 100,000	\$ 537,792	\$ 637,792
Due within one year	\$ -	\$ 151,341	\$ 151,341
Due in more than one year	\$ 100,000	\$ 386,451	\$ 486,451

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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.

Future minimum lease payments at June 30, 2017 are as follows:

Fiscal year		
2018	\$	48,000
2019		48,000
2020		48,000
2021		48,000
2022		48,000
2023		16,000
Future minimum lease payments	\$	<u>256,000</u>

Note 6. Commitments and 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.