

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

Annual Financial Report
June 30, 2020 and 2019

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

June 30, 2020 and 2019

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Financial Section

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Independent Auditor's Report

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

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, 2020 and 2019 and for the fiscal 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.

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, 2020 and 2019, 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
August 26, 2020

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, 2020. 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 2019, program fees were 78% of total operating expenses. In fiscal year 2020, program fees were 78% of total operating 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 2020 by \$4,254,797 or 4%. The overall increase in cash and investments was primarily the result of improved performance of the investment portfolio which saw some volatility in March – April, 2020 due to COVID 19. We did experience a market recovery in May-June, 2020 which allowed us to maintain a positive trend line. 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 July of 2020 and the rolling average of the previous 12 quarters was determined to be \$99,053,584 yielding a 4% spend rate of \$3,962,143 and a quarterly withdrawal of up to \$990,536 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, and discontinued operations, 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 \$105,536,813 at the close of the most recent fiscal year.

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

	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current assets:						
Cash and cash equivalents	\$ 1,022,464	1	\$ 218,408	-	\$ 804,056	368
Investments	105,265,555	99	101,810,862	100	3,454,693	3
Prepaid expenses and other	88,842	-	92,794	-	(3,952)	(4)
Total current assets	106,376,861		102,122,064		4,254,797	
Noncurrent assets:						
Capital assets, net	-	-	-	-	-	-
Total assets	106,376,861	100	102,122,064	100	4,254,797	
Current liabilities:						
Accounts payable	283,411	34	470,694	45	(187,283)	(40)
Accrued liabilities	3,256	-	-	-	3,256	-
Estimated amounts due to third-party payers	183,904	22	183,904	18	-	-
Total current liabilities	470,571		654,598		(184,027)	
Long-term liabilities:						
Estimated self-insurance - due in more than one year	369,477	44	381,010	37	(11,533)	(3)
Total liabilities	840,048	100	1,035,608	100	(195,560)	
Net position:						
Unrestricted	105,536,813	100	101,086,456	100	4,450,357	4
Total net position	\$ 105,536,813	100	\$ 101,086,456	100	\$ 4,450,357	

The Authority's total assets of \$105,536,813 are largely comprised of current investments of \$105,265,555, or 99%. The Authority's investment income provides for program costs.

Accounts payable of \$283,411 comprise 34% of the Authority's total liabilities of \$840,048. Long-term liabilities are comprised of estimated self-insurance, \$369,477 or 44% of total liabilities, related to general and professional liability and workers' compensation. As of June 30, 2020, the Authority did not report a portion of estimated self-insurance as due within one year, which is generally included in current liabilities.

At June 30, 2020, the Authority's net position consisted entirely of unrestricted net position of \$105,536,813, which represents resources available to fund the services of the Authority next year.

The Authority's net position increased \$4,450,357 from current operations.

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

	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Operating revenue:						
Operating revenue	\$ -	-	\$ -	-	\$ -	-
Total operating revenue	-	-	-	-	-	
Operating expenses:						
Salaries and benefits	306,319	12	306,030	12	289	-
Purchased services and professional fees	118,315	5	140,120	5	(21,805)	(16)
Program fees	1,935,536	78	1,989,696	78	(54,160)	(3)
Supplies and other	73,859	4	77,535	4	(3,676)	(5)
Insurance	43,329	1	37,805	1	5,524	15
Total operating expenses	2,477,358	100	2,551,186	100	(73,828)	
Operating loss	(2,477,358)		(2,551,186)		73,828	
Nonoperating revenue (expense):						
Investment income	7,285,731		5,517,568		1,768,163	
Upper payment limit program expense	-		(346,377)		346,377	
Total nonoperating revenue (expense)	7,285,731		5,171,191		2,114,540	
Excess of revenues over expenses from continuing operations	4,808,373		2,620,005		2,188,368	
Discontinued operations:						
Gain (loss) from discontinued operations	(358,016)		696		(358,712)	
Change in net position	4,450,357		2,620,701		1,829,656	
Beginning net position	101,086,456		98,465,755		2,620,701	
Ending net position	\$ 105,536,813		\$ 101,086,456		\$ 4,450,357	

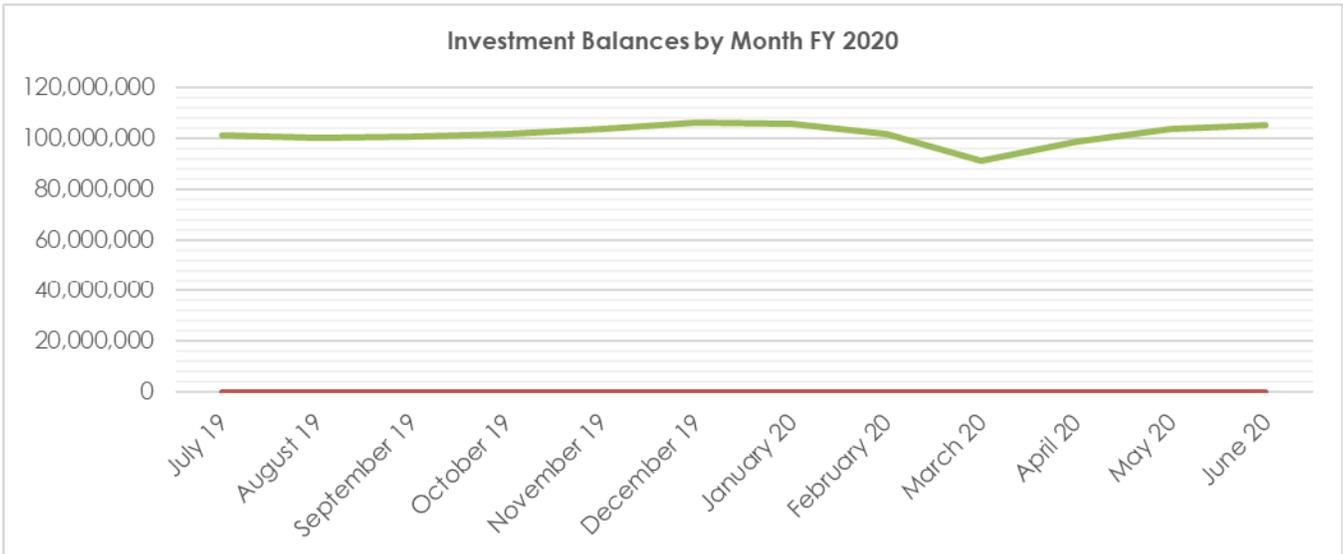
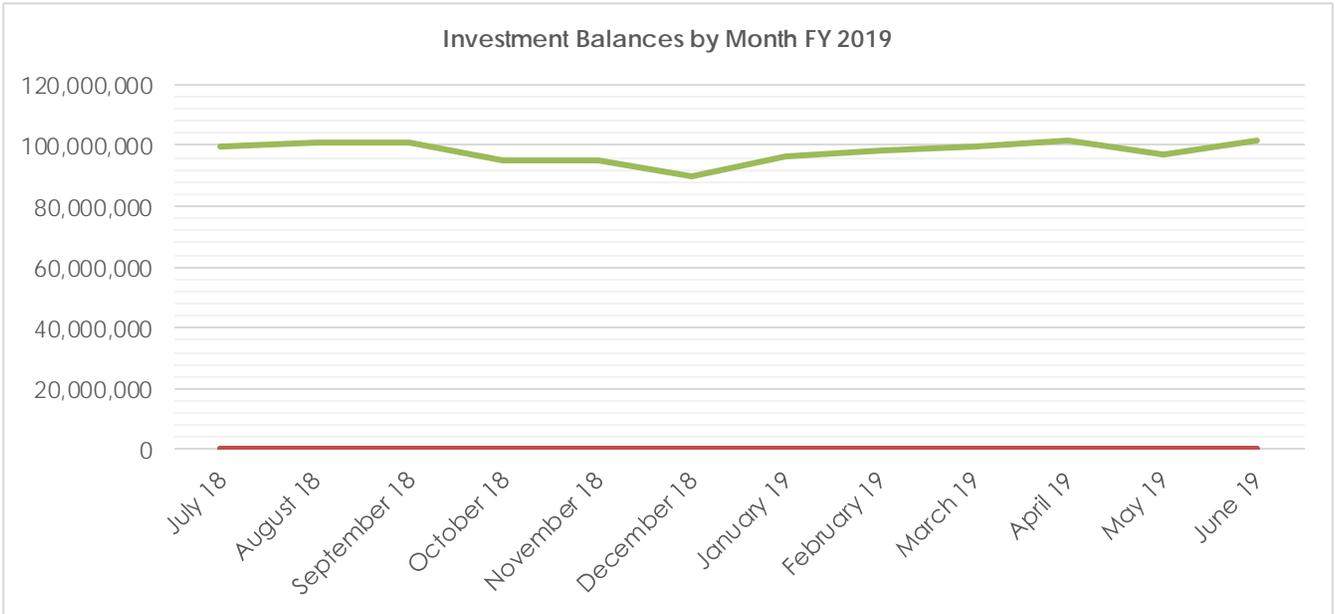
The Authority's total revenues of \$7,285,731 were comprised entirely of nonoperating revenues related to interest, dividends and increases in fair value of investments. Total operating expenses were \$2,477,358, which consisted primarily of salaries and benefits of \$306,319, or 12% of total operating expenses, and program fees of \$1,935,536, or 78% of total operating expenses.

Investment Portfolio Performance

Investment performance for fiscal year 2020 was volatile but 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 2019 and 2020.

Table A-3

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



Program Fees

The Authority spent \$1,935,536 and \$1,989,696 during fiscal year 2020 and fiscal year 2019, respectively, on the following programs:

Program Description	2020	2019
Tomagwa Dental Program	\$ 470,530	\$ 553,289
Tomagwa Emergency Funding	-	220,000
Lone Star College Foundation	311,775	136,282
Tomagwa - Medical Clinic	-	120,000
Tomball ISD	-	109,702
JoyRide Center	86,476	105,000
Tomagwa Projects	-	103,225
Northwest Asst Ministry Meals	222,170	100,000
Meals on Wheels	74,910	77,640
Tomagwa Grant Writer	85,976	61,478
Montgomery Co. Youth Services	52,500	56,218
The Rose (Mammography)	40,000	45,000
Klein ISD - AED	48,598	41,086
Tomball Pregnancy Center	95,254	35,257
Tomball Pines	-	30,000
Concordia Lutheran High School	-	25,791
Boys & Girls Country	20,000	25,000
Be An Angel, Inc.	-	25,000
Camp Blessing Texas	-	24,133
Inspiring Possibilities	47,669	20,558
City of Tomball AED Replacement	-	15,588
TEAM Dental	52,570	14,798
Lone Star College - Meningitis	-	13,500
Sure Therapeutic Horsemanship	-	10,000
Klein ISD - See to Succeed	-	8,690
Swim Safe Program	14,939	6,125
Senior Rides and More	2,500	2,500
Tomball CC Health & Wellnness	2,000	2,000
Community Education	3,438	1,296
Flu Shot Program	-	540
Amer Heart Assoc - CPR Training	95,302	-
His Grace Foundation	24,000	-
Inspiration Ranch	105,672	-
Camp Hope	54,257	-
Teen and Family Services	10,000	-
The Tomball Lions Club	15,000	-
Total program fees	\$ 1,935,536	\$ 1,989,696

Additionally, the Authority paid \$346,377 in fiscal year 2019 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.

Legacy Expense

Legacy Expense is defined as ongoing expense obligations related to discontinued operations during the timeframe when the Authority owned and operated Tomball Regional Medical Center. The Authority was self-insured for Workman's Compensation claims and there are still open claims related to workman's compensation that the Authority is still obligated for. The Authority had also filed a claim with FEMA regarding damage from Hurricane Ike in 2008. A grant was issued by FEMA in 2009. Repairs to the Diagnostic Building were not fully completed prior to the sale of the hospital in 2011 resulting in a FEMA overpayment of \$358,016 of funds that were not used. The funds were returned to FEMA this fiscal year and appear as a loss on discontinued operations.

Community Health Needs Assessment

In April of 2017, the Foundation conducted a Community Health Needs Assessment to better identify ongoing needs within the community in conjunction with a National Research Partner, Baker Tilly.

Identified Priority Health Needs

Leadership from TRHF reviewed findings from the 2017 CHNA research to determine health priorities on which to focus community health improvement activities. CHNA research included public health indicators, socioeconomic measures, and input from health consumers and key community stakeholders. The CHNA research revealed a number of social and health issues contributing to health disparity and poorer health outcomes across the region.

Access to Health Care

- Affordability of health care costs
- Medical home for uninsured and underinsured
- Unmet need for behavioral health care
- Transportation for health needs

Reducing Risk Factors for Chronic Disease

- Health literacy and education
- Wellness programs aimed at reducing risk factors for disease and managing chronic conditions
- Proactive prescription management

Community Collaboration

- Increase networking among community based organizations
- Leverage existing resources
- Promote cross-program referrals

TRHF leadership determined that improving access to health care was central to the success of future health improvement initiatives. Specifically, the CHNA highlighted specific issues related to access to care that contribute to health disparities across the region.

The entire 2017 Community Health Needs Assessment, including methodology and recommendations can be found at http://www.trhffoundation.org/images/pdfs/TRHF_2017_CHNA_Data_Report_2017-04-28.pdf.

Tomball Regional Health Foundation is committed to the community and to being a community partner within Harris, Montgomery, and Waller Counties. TRHF will continue to be guided by our mission to promote wellness and improve health status for all residents in our communities through programs that enhance access to health care, preventative care and health education.

Impact of COVID 19 on Funding and the Community

In February of 2020, a previously unknown virus originating out of China (COVID 19) rapidly became a world-wide pandemic. A "state of emergency" was declared world-wide, businesses were ordered closed and employees ordered to quarantine at home. Gatherings were limited to less than 10 people. Schools were closed for the remainder of the year. "Social distancing", the wearing of Personal Protective Equipment, and frequent use of hand sanitizer was encouraged and eventually mandated in all public areas.

Impact on the Foundation's current funding agreements

A majority of our funding agreements are based on a "fee for service" basis in that we pay a set fee for each service rendered. When the quarantine lock down orders were issued, many of our funded agencies were forced to suspend operations until the Emergency orders are lifted. Unfortunately, this also impacted funding to those agencies who were forced to suspend operations due to the Pandemic. No service rendered, no payment.

There do not appear to be any quick solutions to this Pandemic, short of a vaccine. The current limited ability of our funded agencies to provide a safe and effective service in compliance with the State Mandated COVID requirements will continue to be a challenge in the next fiscal year.

We continue to work with our Funded Organizations to look for new and innovative ways to continue to provide services within the parameters of the Foundation's Mission and the mandated COVID 19 restrictions as imposed by the State.

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, 2020 and 2019

ASSETS	2020	2019
Current assets:		
Cash and cash equivalents	\$ 1,022,464	\$ 218,408
Investments	105,265,555	101,810,862
Prepaid expenses and other	88,842	92,794
Total current assets	<u>106,376,861</u>	<u>102,122,064</u>
Noncurrent assets:		
Capital assets, net	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>-</u>
Total assets	<u>106,376,861</u>	<u>102,122,064</u>
LIABILITIES		
Current liabilities:		
Accounts payable	283,411	470,694
Accrued liabilities	3,256	-
Estimated amounts due to third-party payers	183,904	183,904
Total current liabilities	<u>470,571</u>	<u>654,598</u>
Long term liabilities:		
Estimated self-insurance - due in more than one year	<u>369,477</u>	<u>381,010</u>
Total noncurrent liabilities	<u>369,477</u>	<u>381,010</u>
Total liabilities	<u>840,048</u>	<u>1,035,608</u>
NET POSITION		
Unrestricted	<u>105,536,813</u>	<u>101,086,456</u>
TOTAL NET POSITION	<u><u>\$ 105,536,813</u></u>	<u><u>\$ 101,086,456</u></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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUE	\$ -	\$ -
OPERATING EXPENSES		
Salaries and benefits	306,319	306,030
Purchased services and professional fees	118,315	140,120
Program fees	1,935,536	1,989,696
Supplies and other	73,859	77,535
Insurance	43,329	37,805
	<u>2,477,358</u>	<u>2,551,186</u>
Total operating expenses	2,477,358	2,551,186
Operating loss	(2,477,358)	(2,551,186)
NONOPERATING REVENUE (EXPENSE)		
Investment income	7,285,731	5,517,568
Upper payment limit program expense	-	(346,377)
	<u>7,285,731</u>	<u>5,171,191</u>
Total nonoperating revenue (expense)	7,285,731	5,171,191
Excess of revenues over expenses from continuing operations	4,808,373	2,620,005
DISCONTINUED OPERATIONS		
Gain (loss) from discontinued operations	(358,016)	696
Change in net position	4,450,357	2,620,701
Net position - beginning	<u>101,086,456</u>	<u>98,465,755</u>
NET POSITION - ENDING	<u><u>\$ 105,536,813</u></u>	<u><u>\$ 101,086,456</u></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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and contractors	\$ (2,723,919)	\$ (2,178,223)
Payments for salaries and benefits	(303,063)	(306,030)
	<hr/>	<hr/>
Net cash used for operating activities	(3,026,982)	(2,484,253)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Upper payment limit program payments	-	(346,377)
	<hr/>	<hr/>
Net cash used for noncapital financing activities	-	(346,377)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	2,266,984	2,123,204
Purchase of investments	(58,180,259)	(94,237,308)
Proceeds from disposition of investments	59,744,313	94,884,242
	<hr/>	<hr/>
Net cash provided by investing activities	3,831,038	2,770,138
Net increase (decrease) in cash and cash equivalents	804,056	(60,492)
CASH AND CASH EQUIVALENTS - beginning of period	<hr/>	<hr/>
	218,408	278,900
CASH AND CASH EQUIVALENTS - end of period	<hr/>	<hr/>
	\$ 1,022,464	\$ 218,408
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	\$ (2,477,358)	\$ (2,551,186)
Adjustments to reconcile operating loss		
to net cash used for operating activities:		
Gain (loss) from discontinued operations	(358,016)	696
(Increase) decrease in prepaid expenses and other	3,952	(1,903)
Increase (decrease) in accounts payable	(187,283)	80,263
Increase (decrease) in accrued liabilities	3,256	-
Increase (decrease) in estimated self-insurance liability	(11,533)	(12,123)
	<hr/>	<hr/>
Total adjustments	(549,624)	66,933
NET CASH USED FOR OPERATING ACTIVITIES	<hr/>	<hr/>
	\$ (3,026,982)	\$ (2,484,253)

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 Medical 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:

Asset Class	Estimated Useful Lives
Furniture and equipment	3-20 years

4. Net Position and Flow Assumption

Net position consists of 1) net investment in capital assets 2) restricted and 3) unrestricted. Net investment in capital assets consists of capital assets net of accumulated depreciation and any related debt. The Authority does not report net position that meets the criteria of net investment in capital assets or restricted; therefore, net position is classified entirely as unrestricted.

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, 2020 and 2019, the Authority submitted approximately \$0 and \$346,377, 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.

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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, 2020 and 2019, the Authority's bank deposit balances of \$1,099,969 and \$297,724, 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.

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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, 2020				
Investments reported at net asset value, not subject to level reporting:				
Money market mutual funds	\$ 3,004,070	\$ -	3%	42
Investments reported at fair value:				
Equity securities:				
U.S. equity securities	49,756,192	49,756,192	47%	1
Global equity securities	12,572,555	12,572,555	12%	1
Fixed income mutual funds:				
U.S. fixed income non-government/ agency	34,411,427	34,411,427	33%	1
Global fixed income	3,848,328	3,848,328	4%	1
Real assets	1,672,983	1,672,983	1%	1
Total value	\$ 105,265,555	\$ 102,261,485	100%	
Portfolio weighted average maturity				1
June 30, 2019				
Investments reported at net asset value, not subject to level reporting:				
Money market mutual funds	\$ 6,925,142	\$ -	7%	30
Investments reported at fair value:				
Equity securities:				
U.S. equity securities	39,089,569	39,089,569	38%	1
Global equity securities	18,563,247	18,563,247	18%	1
Fixed income mutual funds:				
U.S. fixed income non-government/ agency	27,010,510	27,010,510	27%	1
Global fixed income	6,224,364	6,224,364	6%	1
Real assets	3,998,030	3,998,030	4%	1
Total value	\$ 101,810,862	\$ 94,885,720	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, 2020 and 2019:

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

Real Assets 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, 2020 and 2019, the Authority's investments in money market mutual funds were rated "AAAm" by Standard & Poor's. Equity securities, fixed income, alternate investments and real assets 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.

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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, 2020 and 2019 consisted of the following:

	2020	2019
Interest and dividend income	\$ 2,266,984	\$ 2,123,204
Net realized and unrealized gains (losses)	5,018,747	3,394,364
Total investment income (loss)	\$ 7,285,731	\$ 5,517,568

Note 3. Capital Assets

Capital assets activity for the years ended June 30, 2020 and 2019 was as follows:

	2020			
	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	(94,642)	-	-	(94,642)
Total accumulated depreciation	(94,642)	-	-	(94,642)
Total capital assets being depreciated, net	-	-	-	-
Total capital assets, net	\$ -	\$ -	\$ -	\$ -
	2019			
	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	(94,642)	-	-	(94,642)
Total accumulated depreciation	(94,642)	-	-	(94,642)
Total capital assets being depreciated, net	-	-	-	-
Total capital assets, net	\$ -	\$ -	\$ -	\$ -

Depreciation expense for the years ended June 30, 2020 and 2019 was \$0 and \$0, 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 \$300,000 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, 2020 and 2019 are summarized as follows:

	General and Professional Liability	Workers' Compensation	Total
June 30, 2020			
Balance, beginning of year	\$ 100,000	\$ 281,010	\$ 381,010
Changes in estimates for claims incurred in prior years	-	-	-
Claims and expenses paid	-	(11,533)	(11,533)
Balance, end of year	\$ 100,000	\$ 269,477	\$ 369,477
Due within one year	\$ -	\$ -	\$ -
Due in more than one year	100,000	269,477	369,477
June 30, 2019			
Balance, beginning of year	100,000	293,133	393,133
Changes in estimates for claims incurred in prior years	-	-	-
Claims and expenses paid	-	(12,123)	(12,123)
Balance, end of year	\$ 100,000	\$ 281,010	\$ 381,010
Due within one year	\$ -	\$ -	\$ -
Due in more than one year	100,000	281,010	381,010

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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 expenses for fiscal years 2020 and 2019 were \$44,752 and \$44,752, respectively.

Future minimum lease payments at June 30, 2020 are as follows:

<u>Fiscal year</u>	
2021	\$ 44,752
2022	44,752
2023	<u>14,917</u>
Future minimum lease payments	<u>\$ 104,421</u>

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.