

**Tomball Hospital Authority d/b/a
Tomball Regional Health Foundation**
Independent Auditor's Report and Financial Statements
June 30, 2016 and 2015



**Tomball Hospital Authority d/b/a
Tomball Regional Health Foundation**
June 30, 2016 and 2015

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Independent Auditor's Report

Board of Directors
Tomball Hospital Authority d/b/a
Tomball Regional Health Foundation
Tomball, Texas

We have audited the accompanying balance sheets of Tomball Hospital Authority d/b/a Tomball Regional Health Foundation, as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Tomball Hospital Authority d/b/a Tomball Regional Health Foundation's basic financial statements.

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 audits. We conducted our audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tomball Hospital Authority d/b/a Tomball Regional Health Foundation as of June 30, 2016 and 2015, 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 Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

BKD, LLP

Houston, Texas
December 1, 2016

**Tomball Hospital Authority d/b/a
Tomball Regional Health Foundation
Management's Discussion and Analysis
June 30, 2016 and 2015**

Introduction

This management's discussion and analysis of the financial performance of Tomball Hospital Authority d/b/a Tomball Regional Health Foundation (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2016 and 2015. During the fiscal year ended 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. The Authority's 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 is accomplished by funding various projects within our community that fit our mission and values.

As stated above, revenue for the Authority is solely dependent upon investment performance. Expenses are in two distinct areas, operational expense and project expense.

Financial Highlights

Cash and long-term investments decreased in 2016 by \$2,012,380 or 2.25 percent. The overall decrease in cash and investments was primarily the result of project funding and operational expenses exceeding the performance of the investment portfolio. In August 2015, the Board of Directors (the Board) approved an annual spending rate of 4 percent based on the rolling average of the investment portfolio value 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 first withdrawal was in October 2015. Market conditions were not favorable for the withdrawal in January. The next withdrawal of \$828,508 was in May 2016.

Total assets decreased by \$2,052,482 or 2.29 percent from 2015 to 2016.

Assets	2016	2015	2014
Current Assets			
Cash and cash equivalents	\$ 837,684	\$ 804,706	\$ 2,260,526
Accrued interest receivable	75	15,814	202,557
Estimated amounts due from third-party payers	-	-	1,180,644
Prepaid expenses and other	94,363	99,798	103,464
Total current assets	<u>932,122</u>	<u>920,318</u>	<u>3,747,191</u>
Long-term Investments	<u>86,653,463</u>	<u>88,698,821</u>	<u>86,538,728</u>
Capital Assets, Net	<u>30,803</u>	<u>49,731</u>	<u>631,470</u>
Total assets	<u><u>\$ 87,616,388</u></u>	<u><u>\$ 89,668,870</u></u>	<u><u>\$ 90,917,389</u></u>

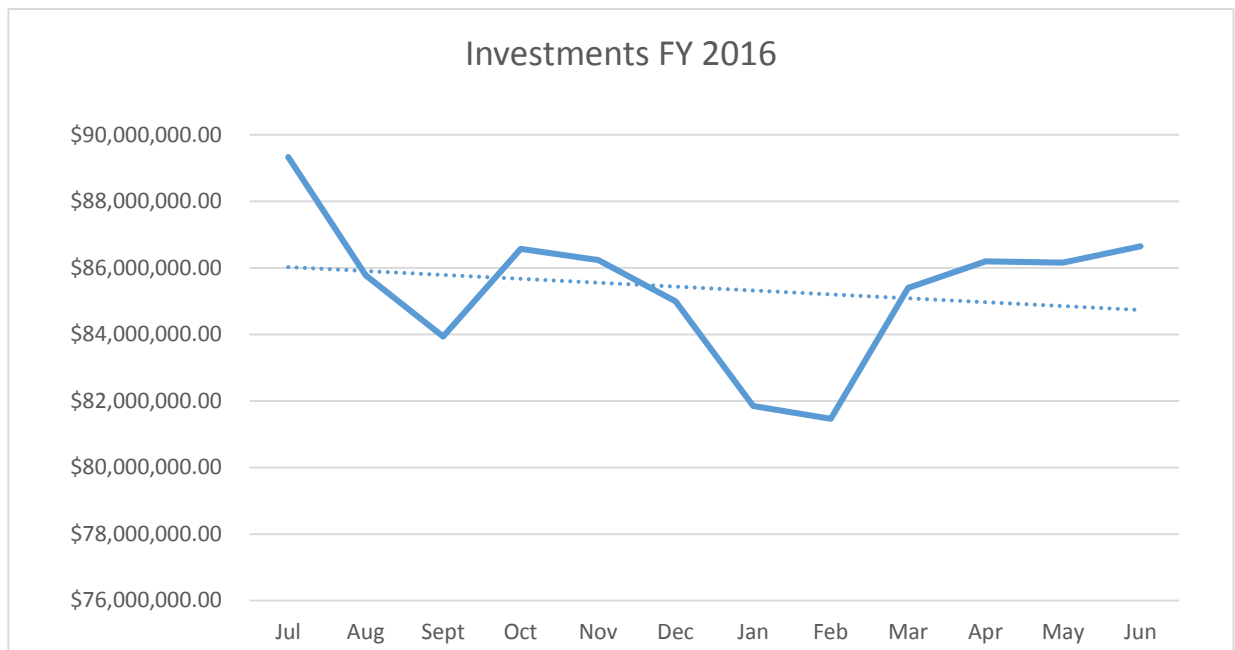
	2016	2015	2014
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 185,752	\$ 242,902	\$ 63,571
Estimated amounts due to third-party payers	93	2,138	-
Estimated self-insurance costs	151,341	99,768	83,866
Total current liabilities	337,186	344,808	147,437
Estimated Self-insurance Costs	486,451	458,260	601,148
Total liabilities	823,637	803,068	748,585
Net Position			
Net investment in capital assets	30,803	49,731	631,470
Unrestricted	86,761,948	88,816,071	89,537,334
Total net assets	86,792,751	88,865,802	90,168,804
Total liabilities and net assets	\$ 87,616,388	\$ 89,668,870	\$ 90,917,389

Operational expenses decreased \$256,253 or 15.4 percent from 2015 to 2016.

	2016	2015	2014
Operating Revenues	\$ 6,615	\$ 8,452	\$ 7,128
Operating Expenses			
Salaries and benefits	270,363	251,558	210,627
Purchased services and professional fees	183,715	226,691	361,535
Program fees	818,304	1,041,824	655,560
Supplies and other	77,280	81,655	242,098
Depreciation expense	18,928	18,929	18,928
Insurance	42,061	46,247	96,826
Total operating expenses	1,410,651	1,666,904	1,585,574
Operating Loss	(1,404,036)	(1,658,452)	(1,578,446)
Nonoperating Revenue (Expenses)			
Investment income	(403,392)	1,976,662	8,399,990
Upper Payment Limit program expense	-	(1,200,000)	(646,331)
Total nonoperating revenue (expenses)	(403,392)	776,662	7,753,659
Excess (Deficiency) of Revenues Over Expenses From Continuing Operations	(1,807,428)	(881,790)	6,175,213
Discontinued Operations			
Gain (loss) from discontinued operations	(265,623)	(421,212)	650,493
Increase (Decrease) in Net Position	(2,073,051)	(1,303,002)	6,825,706
Net Position, Beginning of Year	88,865,802	90,168,804	83,343,098
Net Position, End of Year	\$ 86,792,751	\$ 88,865,802	\$ 90,168,804

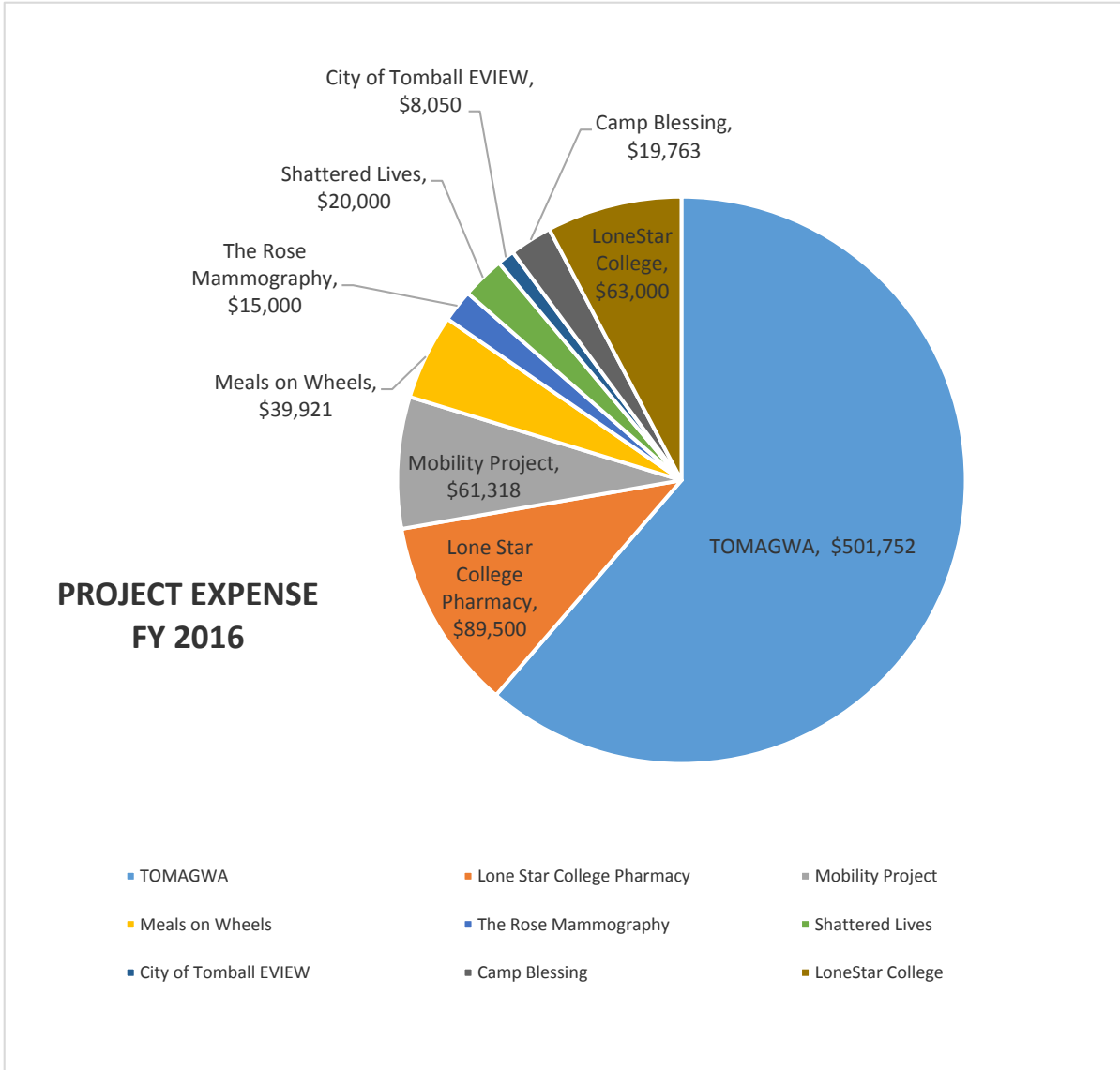
Investment Portfolio Performance

Investment performance for fiscal year 2016 was challenged by economic factors in the market during the year. The portfolio saw a downturn beginning in August 2015 that continued through February 2016. The market did show a favorable return beginning in March 2016 that almost returned the Authority back to previous year end considering that we have withdrawn \$1,657,016 from the portfolio to support operations and projects this year. In January 2016, we were notified by JP Morgan (our Custodian and Investment Manager for our portfolio) that they were terminating our custody agreement. It was a business decision on their part to get out of the custody business. The Audit, Finance, and Investment Committee underwent a search for a new custodian to replace JP Morgan. In March 2016, following a recommendation from the Committee, the Board selected Wells Fargo Private Bank as our new Custodian and Investment Manager. All funds were transferred from JP Morgan to Wells Fargo Private Bank. That process was completed in April 2016.



Project Expense

Project expenses decreased \$1,423,520 or 63.0 percent from previous year. Total project expense in fiscal year 2015 was \$2,241,824. Total project expense for fiscal year 2016 was \$818,304. The reduction is primarily due to no upper payment limit program expense in fiscal year-end 2016 and the mid-year performance of our investment portfolio. Under direction from the Board, we placed a hold on new projects in order to maintain our cash position until the market turned around.



Contacting the Authority

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

**Tomball Hospital Authority d/b/a
Tomball Regional Health Foundation**

**Balance Sheets
June 30, 2016 and 2015**

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 837,684	\$ 804,706
Accrued interest receivable	75	15,814
Prepaid expenses and other	94,363	99,798
	932,122	920,318
Long-term Investments	86,653,463	88,698,821
Capital Assets, Net	30,803	49,731
Total assets	\$ 87,616,388	\$ 89,668,870
 Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 185,752	\$ 242,902
Estimated amounts due to third-party payers	93	2,138
Estimated self-insurance costs	151,341	99,768
	337,186	344,808
Estimated Self-insurance Costs	486,451	458,260
Total liabilities	823,637	803,068
Net Position		
Net investment in capital assets	30,803	49,731
Unrestricted	86,761,948	88,816,071
	86,792,751	88,865,802
Total liabilities and net position	\$ 87,616,388	\$ 89,668,870

**Tomball Hospital Authority d/b/a
Tomball Regional Health Foundation**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 6,615	\$ 8,452
Operating Expenses		
Salaries and benefits	270,363	251,558
Purchased services and professional fees	183,715	226,691
Program fees	818,304	1,041,824
Supplies and other	77,280	81,655
Depreciation expense	18,928	18,929
Insurance	42,061	46,247
Total operating expenses	<u>1,410,651</u>	<u>1,666,904</u>
Operating Loss	<u>(1,404,036)</u>	<u>(1,658,452)</u>
Nonoperating Revenue (Expenses)		
Investment income (loss)	(403,392)	1,976,662
Upper Payment Limit program expense	<u>-</u>	<u>(1,200,000)</u>
Total nonoperating revenue (expenses)	<u>(403,392)</u>	<u>776,662</u>
Deficiency of Revenues Over Expenses From Continuing Operations	(1,807,428)	(881,790)
Discontinued Operations		
Loss from discontinued operations	<u>(265,623)</u>	<u>(421,212)</u>
Decrease in Net Position	(2,073,051)	(1,303,002)
Net Position, Beginning of Year	<u>88,865,802</u>	<u>90,168,804</u>
Net Position, End of Year	<u>\$ 86,792,751</u>	<u>\$ 88,865,802</u>

Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Statements of Cash Flows Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts on behalf of patients	\$ -	\$ 1,139,402
Payments to suppliers and contractors	(1,360,979)	(1,340,406)
Payments to employees	(270,363)	(251,558)
Other receipts, net	6,615	8,452
Net cash used in operating activities	(1,624,727)	(444,110)
Noncapital Financing Activity		
Upper Payment Limit program payments	-	(1,200,000)
Net cash used in noncapital financing activity	0	(1,200,000)
Capital and Related Financing Activities		
Proceeds from sale of capital assets	-	347,337
Proceeds from sale of capital assets remitted to third party	-	(162,359)
Net cash provided by capital and related financing activities	0	184,978
Investing Activities		
Interest and dividends on investments	3,023,273	1,929,404
Purchases of investments	(102,830,149)	(32,266,591)
Proceeds from disposition of investments	101,464,581	30,340,499
Net cash provided by investing activities	1,657,705	3,312
Increase (Decrease) in Cash and Cash Equivalents	32,978	(1,455,820)
Cash and Cash Equivalents, Beginning of Year	804,706	2,260,526
Cash and Cash Equivalents, End of Year	\$ 837,684	\$ 804,706
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,404,036)	\$ (1,658,452)
Loss from discontinued operations	(265,623)	(43,380)
Depreciation and amortization	18,928	18,929
Changes in operating assets and liabilities:		
Estimated amounts due from and to third-party payers	(2,045)	1,182,782
Accounts payable and accrued expenses	22,614	52,345
Other current assets and liabilities	5,435	3,666
Net cash used in operating activities	\$ (1,624,727)	\$ (444,110)

Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Notes to Financial Statements

June 30, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Tomball Hospital Authority d/b/a 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 11 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 d/b/a 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 d/b/a 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.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific, such as investment income and Upper Payment Limit (UPL) program payments, are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Notes to Financial Statements

June 30, 2016 and 2015

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Authority is self-insured for its exposure to risk of loss from medical malpractice, general liability, workers' compensation claims and prior to October 1, 2011, employee health. Annual estimated provisions are accrued for these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition are carried at fair value. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments, and the net change for the year in the fair value of investments carried at fair value.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The estimated useful lives used by the Authority are as follows:

Equipment	3-20 years
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Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Notes to Financial Statements

June 30, 2016 and 2015

Net Position

Net position of the Authority is classified in two components. 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.

Net Patient Service Revenue

Prior to October 1, 2011, the Authority had agreements with third-party payers that 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 future periods as adjustments became known.

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: Net Patient Service Revenue

Prior to the sale of the Hospital, the Authority had agreements with third-party payers that provided for payments to the Hospital at amounts different from its established rates. 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.

Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Notes to Financial Statements

June 30, 2016 and 2015

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 the Hospital. During the years ended June 30, 2016 and 2015, the Authority submitted approximately \$0 and \$1,200,000, respectively, in inter-governmental transfers on behalf of the Hospital.

Note 3: Deposits, Investments and Investment Income

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. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law generally requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury; U.S. agencies or instrumentalities of the State of Texas; or bonds of any city, county, school district or special road district of the State of Texas having an aggregate value at least equal to the amount of the deposits.

At June 30, 2016 and 2015, 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 Authority modified their investment policy during the year ended 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.

At June 30, 2016 and 2015, the Authority had the following investments and maturities.

Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Notes to Financial Statements

June 30, 2016 and 2015

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
June 30, 2016:					
Money market mutual funds	\$ 3,073,334	\$ 3,073,334	\$ -	\$ -	\$ -
Equity securities:					
U.S. equity securities	27,802,383	27,802,383	-	-	-
Global equity securities	17,798,808	17,798,808	-	-	-
Fixed income:					
U.S. fixed income non-government/agency	14,914,893	14,914,893	-	-	-
Global fixed income	3,580,183	3,580,183	-	-	-
Alternative investments	9,983,815	9,983,815	-	-	-
Real estate investment trusts	9,500,047	9,500,047	-	-	-
	<u>\$ 86,653,463</u>	<u>\$ 86,653,463</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
June 30, 2015:					
Money market mutual funds	\$ 786,672	\$ 786,672	\$ -	\$ -	\$ -
Equity securities:					
U.S. equity securities	38,997,264	38,997,264	-	-	-
Global equity securities	13,813,516	13,813,516	-	-	-
Fixed income:					
U.S. fixed income non-government/agency	30,731,667	30,731,667	-	-	-
Global fixed income	4,369,702	4,369,702	-	-	-
	<u>\$ 88,698,821</u>	<u>\$ 88,698,821</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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 the maximum weighted-average maturity of its investment portfolio to 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 commercial bonds and equity securities to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2016 and 2015, the Authority's investments in U.S. agencies' obligations not directly guaranteed by the U.S. Government were rated "AA+" by Standard & Poor's.

Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Notes to Financial Statements

June 30, 2016 and 2015

Custodial Credit Risk. For an investment, custodial credit risk 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 investment or collateral securities that are in the possession of an outside party. The Authority's investment policy requires all securities underlying repurchase agreements be pledged to the Authority, held in the Authority's name and deposited at the time the investment is made with the Authority or with a third party selected and approved by the Authority. The Authority held no securities under repurchase agreements as of June 30, 2016 and 2015.

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

Recurring Measurements. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2016:

- Money Market Mutual Funds of \$3,073,334 are valued using quoted market prices (Level 1 input)
- Equity Securities of \$45,601,191 are valued using quoted market prices (Level 1 input)
- Fixed Income of \$18,495,076 are valued using quoted market prices (Level 1 input)
- Alternative Investments of \$9,983,815 are valued using quoted market prices (Level 1 input)
- Real Estate Investment Trusts of \$9,500,047 are valued using quoted market prices (Level 1 inputs)

The Authority has the following recurring fair value measurements as of June 30, 2015:

- Money Market Mutual Funds of \$786,672 are valued using quoted market prices (Level 1 input)
- Equity Securities of \$52,810,780 are valued using quoted market prices (Level 1 input)
- Fixed Income of \$35,101,369 are valued using quoted market prices (Level 1 input)

Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Notes to Financial Statements June 30, 2016 and 2015

Summary of Carrying Values

The carrying values of deposits and investments are included in the balance sheets as follows:

	2016	2015
Carrying value:		
Deposits	\$ 837,684	\$ 804,706
Investments	86,653,463	88,698,821
	\$ 87,491,147	\$ 89,503,527

Included in the following balance sheets captions:

Cash and cash equivalents	\$ 837,684	\$ 804,706
Noncurrent cash and investments	86,653,463	88,698,821
	\$ 87,491,147	\$ 89,503,527

Investment Income

Investment income for the years ended June 30, 2016 and 2015, consisted of the following items:

	2016	2015
Interest and dividend income	3,007,534	\$ 1,742,661
Net realized and unrealized gains (losses)	(3,410,926)	234,001
	\$ (403,392)	\$ 1,976,662

Note 4: Capital Assets

Capital assets activity for the years ended June 30 was as follows:

	2016			
	Beginning Balance	Additions	Disposals	Ending Balance
Equipment	\$ 94,642	\$ -	\$ -	\$ 94,642
Less accumulated depreciation:				
Equipment	44,911	18,928	-	63,839
Capital assets, net	\$ 49,731	\$ (18,928)	\$ 0	\$ 30,803

Tomball Hospital Authority d/b/a Tomball Regional Health Foundation

Notes to Financial Statements

June 30, 2016 and 2015

	2015			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 562,810	\$ -	\$ (562,810)	\$ -
Equipment	94,642	-	-	94,642
	657,452	0	(562,810)	94,642
Less accumulated depreciation:				
Equipment	25,982	18,929	-	44,911
Capital assets, net	\$ 631,470	\$ (18,929)	\$ (562,810)	\$ 49,731

Note 5: Risk Management

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.

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 in the Authority's accrued liabilities during 2016 and 2015 is summarized as follows.

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June 30, 2016 and 2015

	2016	
	General and Professional Liability	Workers' Compensation
Balance, beginning of year	\$ 100,000	\$ 458,028
Changes in estimates for claims incurred in prior years	-	270,743
Claims and expenses paid	-	(190,979)
Balance, end of year	\$ 100,000	\$ 537,792
	2015	
	General and Professional Liability	Workers' Compensation
Balance, beginning of year	\$ 100,000	\$ 585,014
Claims and expenses paid	-	(126,986)
Balance, end of year	\$ 100,000	\$ 458,028

Note 6: Operating Lease

A noncancellable operating lease for the Authority's office expires in October 2017. Rental payments include base rent plus additional items.

Future minimum lease payments at June 30, 2016, were as follows:

2017	\$ 48,000
2018	16,000
Future minimum lease payments	\$ 64,000

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Note 7: Commitments and Contingencies

Litigation

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 are in areas not covered by the Authority's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of 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.

Note 8: Discontinued Operations

During the year ended June 30, 2012, as part of the asset purchase agreement, the Authority sold the operations of its medical center provider and ambulatory surgery center. During the years ended June 30, 2016 and 2015, there were additional amounts related to the sale of the Hospital that were recognized.