

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

Annual Financial Report
June 30, 2021

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

June 30, 2021
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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

We have audited the accompanying financial statements of the governmental activities and general fund of Tomball Hospital Authority dba Tomball Regional Health Foundation (Authority), as of and for the year ended June 30, 2021, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of Tomball Hospital Authority dba Tomball Regional Health Foundation, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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.

Houston, Texas
August 26, 2021

Management's Discussion and Analysis (Unaudited)

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Management's Discussion and Analysis (Unaudited)

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, 2021. 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 501(c)(3). 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 2020, program fees were 78% of total operating expenses. In fiscal year 2021, program fees were 79% 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 2021 by \$24,974,410 or 23%. The overall increase in cash and investments was primarily the result of the unexpected performance of the investment portfolio in spite of COVID 19. We did experience a market recovery for the entire fiscal year 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 2021 and the rolling average of the previous 12 quarters was determined to be \$107,037,008 yielding a 4% spend rate of \$4,281,480 and a quarterly withdrawal of up to \$1,070,370 to support projects and operations.

Overview of the 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) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The Authority presents its financial activities and financial position entirely through a set of combined government-wide and fund financial statements. These statements include the Governmental Fund Balance Sheet / Statement of Net Position and the Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance / Statement of Activities.

The government-wide financial statements, which include the Statement of Net Position and the Statement of Activities, reports information on all of the *governmental activities* of the Authority.

The fund financial statements, which include the Governmental Fund Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance, places an emphasis on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The Authority does not report any nonmajor funds, and reports only one major governmental fund. The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet / Statement of Net Position and the Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance / Statement of Activities provide a reconciliation to facilitate this comparison between the general fund and governmental activities.

The Authority previously reported an enterprise fund, which was reclassified as a governmental fund as of July 1, 2020, as indicated in Note 1 to the financial statements.

Notes to the Financial Statements

Integral to the financial statements are the notes to the basic financial 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.

Government-wide Financial Analysis

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 \$131,752,626 at the close of the most recent fiscal year as noted in Table A-1 below.

Tomball Hospital Authority dba Tomball Regional Health Foundation's Net Position

	2021		2020		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current assets:						
Cash and cash equivalents	\$ 169,255	-	\$ 1,022,464	1	\$ (853,209)	(83)
Investments	131,091,833	99	105,265,555	99	25,826,278	25
Prepaid items and other	90,183	-	88,842	-	1,341	2
Total current assets	131,351,271		106,376,861		24,974,410	
Noncurrent assets:						
Capital assets, net	1,210,390	1	-	-	1,210,390	-
Total assets	132,561,661	100	106,376,861	100	26,184,800	
Current liabilities:						
Accounts payable	238,208	29	283,411	34	(45,203)	(16)
Accrued liabilities	-	-	3,256	-	(3,256)	(100)
Estimated amounts due to third-party payers	183,904	23	183,904	22	-	-
Total current liabilities	422,112		470,571		(48,459)	
Long-term liabilities:						
Estimated self-insurance - due in more than one year	386,923	48	369,477	44	17,446	5
Total liabilities	809,035	100	840,048	100	(31,013)	
Net position:						
Investment in capital assets	1,210,390	1	-	-	1,210,390	-
Unrestricted	130,542,236	99	105,536,813	100	25,005,423	24
Total net position	\$ 131,752,626	100	\$ 105,536,813	100	\$ 26,215,813	

The Authority's total assets of \$132,561,661 are largely comprised of current investments of \$131,091,833, or 99%. The Authority's investment income provides for program costs.

Accounts payable of \$238,208 comprise 29% of the Authority's total liabilities of \$809,035. Long-term liabilities are comprised of estimated self-insurance, \$386,923 or 48% of total liabilities, related to general and professional liability and workers' compensation. As of June 30, 2021, 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, 2021, the Authority's net position consisted primarily of unrestricted net position of \$130,542,236, which represents resources available to fund the services of the Authority next year.

The Authority's net position increased \$26,215,813 during 2021 from current operations as noted in Table A-2 below.

Tomball Hospital Authority dba Tomball Regional Health Foundation's Changes in Net Position

	2021		2020		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues:						
Investment income	\$ 29,038,116	100	\$ 7,285,731	100	\$ 21,752,385	299
Total revenues	29,038,116	100	7,285,731	100	21,752,385	
Expenses:						
Salaries and benefits	299,492	11	306,319	12	(6,827)	(2)
Purchased services and professional fees	125,564	4	118,315	5	7,249	6
Program fees	2,224,659	79	1,935,536	78	289,123	15
Supplies and other	128,838	5	73,859	4	54,979	74
Insurance	43,750	1	43,329	1	421	1
Total operating expenses	2,822,303	100	2,477,358	100	344,945	
Excess of revenues over expenses from continuing operations	26,215,813		4,808,373		21,407,440	
Discontinued operations:						
Loss from discontinued operations	-		(358,016)		358,016	
Change in net position	26,215,813		4,450,357		21,765,456	
Beginning net position	105,536,813		101,086,456		4,450,357	
Ending net position	\$ 131,752,626		\$ 105,536,813		\$ 26,215,813	

The Authority's total revenues of \$29,038,116 were comprised entirely of investment income revenues related to interest, dividends and increases in fair value of investments. Total expenses were \$2,822,303, which consisted primarily of salaries and benefits of \$299,492, or 11% of total expenses, and program fees of \$2,224,659, or 79% of total expenses.

Governmental Fund Financial Analysis

The focus of the Authority's general fund is to provide information of near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements, in particular, unassigned fund balance may serve as a useful measure of the Authority's net resources available for discretionary use as it represents a portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Authority itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Board of Directors.

As of the close of the current fiscal year, the Authority's general fund reported ending fund balance of \$130.9 million, an increase of \$25.0 million over the prior year due to favorable investment returns and adherence to the Authority's spending policy. Approximately 99.9% of this total amount, \$130.8 million, is unassigned fund balance and the remaining 0.1%, or \$0.1 million, is nonspendable fund balance.

Capital Assets

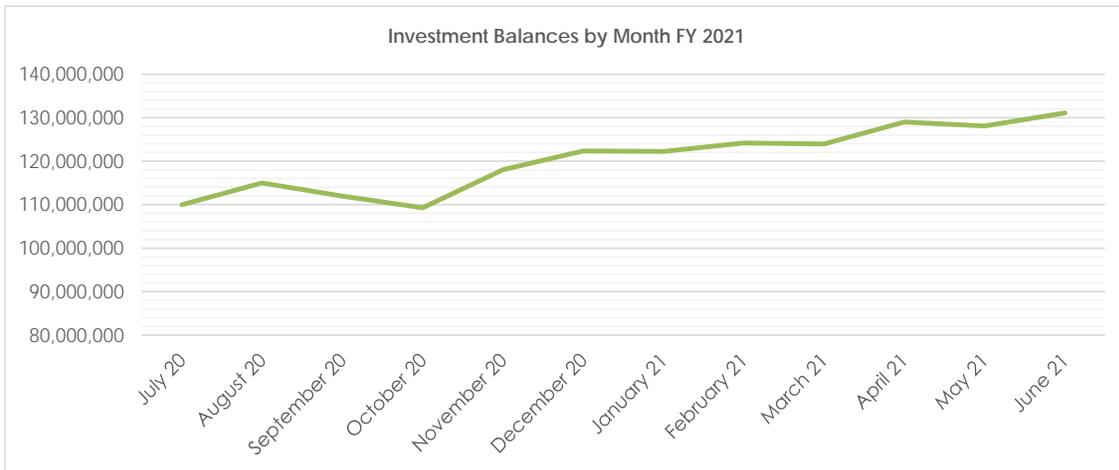
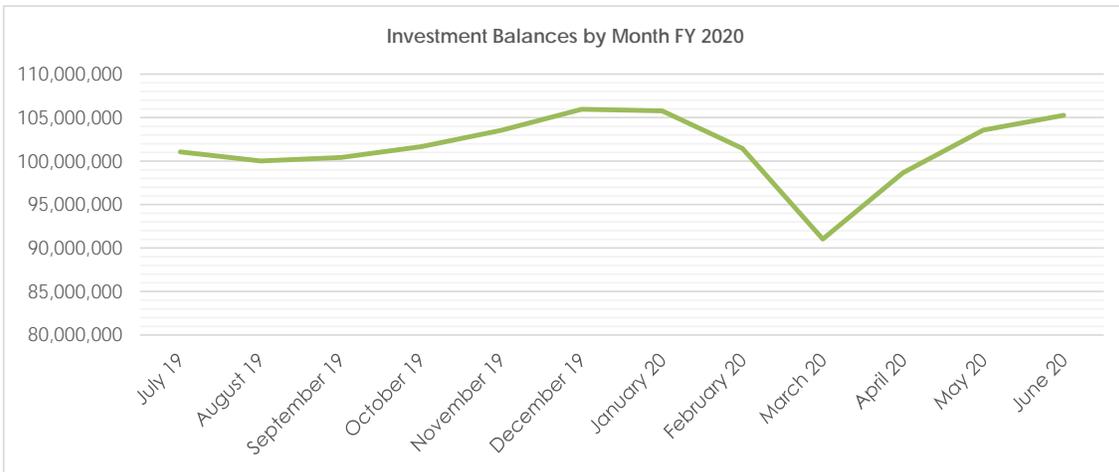
At the end of the current fiscal year, the Authority had invested \$1.2 million in capital assets, net of accumulated depreciation. This was an increase of \$1.2 million from the previous year, consisting entirely of a purchase of approximately 5.5 acres of land for future development of Authority facilities.

Investment Portfolio Performance

Investment performance for fiscal year 2021 was steady 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 2020 and 2021.

Table A-3

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



Program Fees

The Authority spent \$2,224,659 and \$1,935,536 during fiscal year 2021 and fiscal year 2020, respectively, on the following programs:

Program Description	2021	2020
Tomagwa Dental Program	\$ 719,206	\$ 470,530
Lone Star College Foundation	224,697	311,775
Northwest Asst Ministry Meals	225,359	222,170
Inspiration Ranch*	(19,085)	105,672
Amer Heart Assoc - CPR Training	100,839	95,302
Tomball Pregnancy Center	109,860	95,254
JoyRide Center	30,220	86,476
Tomagwa Grant Writer	14,802	85,976
Meals on Wheels	95,046	74,910
Camp Hope	176,694	54,257
TEAM Dental	59,990	52,570
Montgomery Co. Youth Services	30,000	52,500
Klein ISD - AED	68,886	48,598
Inspiring Possibilities	60,917	47,669
The Rose (Mammography)	40,000	40,000
His Grace Foundation	-	24,000
Boys & Girls Country	-	20,000
The Tomball Lions Club	-	15,000
Swim Safe Program	8,555	14,939
Teen and Family Services	20,000	10,000
Community Education	-	3,438
Senior Rides and More	2,500	2,500
Tomball CC Health & Wellness	1,000	2,000
Lone Star College Testing Fees	40,015	-
Tomball ISD	65,000	-
Concordia Lutheran High School	10,700	-
Be An Angel, Inc.	32,885	-
Moving Waters	24,000	-
Magnolia Pharmacy	82,573	-
Total program fees	\$ 2,224,659	\$ 1,935,536

*Program fees of \$19,085 were returned to the Authority during 2021.

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 during 2020 and appear as a loss on discontinued operations. No activities from discontinued operations occurred during 2021.

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.trhfoundation.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.

The Authority is due a new Community Health Needs Assessment, but will hold off until the COVID-19 pandemic is resolved as the results would be unreliable in the middle of a pandemic.

FY2021 Project Expense

Since 2012, the Authority has funded and budgeted over \$20,467,310 in project expense in our community.

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
 Governmental Fund Balance Sheet /
 Statement of Net Position
 June 30, 2021

ASSETS	General Fund	Adjustments (Note 1)	Statement of Net Position
Current assets:			
Cash and cash equivalents	\$ 169,255	\$ -	\$ 169,255
Investments	131,091,833	-	131,091,833
Prepaid items and other	90,183	-	90,183
Total current assets	131,351,271	-	131,351,271
Noncurrent assets:			
Capital assets, net	-	1,210,390	1,210,390
Total noncurrent assets	-	1,210,390	1,210,390
Total assets	131,351,271	1,210,390	132,561,661
LIABILITIES			
Current liabilities:			
Accounts payable	238,208	-	238,208
Estimated amounts due to third-party payers	183,904	-	183,904
Total current liabilities	422,112	-	422,112
Long term liabilities:			
Estimated self-insurance - due in more than one year	-	386,923	386,923
Total noncurrent liabilities	-	386,923	386,923
Total liabilities	422,112	386,923	809,035
FUND BALANCE			
Nonspendable	90,183	(90,183)	-
Unassigned	130,838,976	(130,838,976)	-
TOTAL FUND BALANCE	\$ 130,929,159	\$ (130,929,159)	\$ -
NET POSITION			
Investment in capital assets	-	1,210,390	1,210,390
Unrestricted	-	130,542,236	130,542,236
TOTAL NET POSITION	\$ -	\$ 131,752,626	\$ 131,752,626

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

Tomball Hospital Authority
dba Tomball Regional Health Foundation

Statement of Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance / Statement of Activities
For the Fiscal Year Ended June 30, 2021

	<u>General Fund</u>	<u>Adjustments (Note 1)</u>	<u>Statement of Activities</u>
REVENUES			
Investment income	\$ 29,038,116	\$ -	\$ 29,038,116
Total revenues	<u>29,038,116</u>	<u>-</u>	<u>29,038,116</u>
EXPENDITURES / EXPENSES			
Salaries and benefits	299,492	-	299,492
Purchased services and professional fees	125,564	-	125,564
Program fees	2,224,659	-	2,224,659
Supplies and other	111,392	17,446	128,838
Insurance	43,750	-	43,750
Capital outlay	1,210,390	(1,210,390)	-
Total expenditures / expenses	<u>4,015,247</u>	<u>(1,192,944)</u>	<u>2,822,303</u>
Change in fund balance / net position	25,022,869	1,192,944	26,215,813
Fund balance / net position - beginning	<u>105,906,290</u>		<u>105,536,813</u>
FUND BALANCE / NET POSITION - ENDING	<u><u>\$ 130,929,159</u></u>		<u><u>\$ 131,752,626</u></u>

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

Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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.

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. The Authority is also not considered a component unit of any other reporting entity.

B. Basis of Presentation

The Authority meets the requirements to report as a stand-alone special-purpose government with a single governmental activity. The Authority presents its financial activities and financial position entirely through a set of combined government-wide and fund financial statements. These statements include the Governmental Fund Balance Sheet / Statement of Net Position and the Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance / Statement of Activities.

The government-wide financial statements, which include the Statement of Net Position and the Statement of Activities, reports information on all of the *governmental activities* of the Authority. These activities are supported primarily by investment income, which is an own source revenue.

Tomball Hospital Authority dba Tomball Regional Health Foundation

Notes to the Basic Financial Statements

The fund financial statements, which include the Governmental Fund Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance, places an emphasis on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The Authority does not report any nonmajor governmental funds, and reports only one major governmental fund. The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue / expense as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to other long-term debt and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Authority.

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.

Tomball Hospital Authority
dba Tomball Regional Health Foundation

Notes to the Basic Financial Statements

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 and are recorded on the trade-date.

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. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which includes land and improvements and furniture and equipment, are capitalized and reported in the financial statements at historical cost. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. 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. Land and improvements are not depreciated. 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

5. Net Position and Flow Assumption

Net position consists of 1) Investment in capital assets 2) restricted and 3) unrestricted. Investment in capital assets consists of capital assets net of accumulated depreciation. The Authority does not report net position that meets the criteria of restricted. Remaining net position is classified 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.

6. Fund Balance and Flow Assumption

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Authority classifies governmental fund balances as follows:

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid items.

Tomball Hospital Authority
dba Tomball Regional Health Foundation

Notes to the Basic Financial Statements

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This Authority does not have resources that meet this definition.

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the Authority through formal action of the Authority's highest level of decision-making authority. The Board of Directors (the Board) is the highest level of decision-making authority for the Authority that can, by action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by Board action or the resolution remains in place until a similar action is taken (the Board action or adoption of another resolution) to remove or revise the limitation.

Assigned – includes fund balance amounts that are self-imposed by the Authority to be used for specific purposes, but do not meet the criteria to be classified as non-spendable, restricted or committed. The Authority has, by policy, authorized the CFO or his/her designee to assign fund balance. Unlike commitments, assignments generally exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories.

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

E. Revenues and Expenses

1. 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. In November 2020, the Authority terminated the HCA Tomball affiliate agreement and was removed from the Waiver. During the year ended June 30, 2021, the Authority submitted \$0 in intergovernmental transfer payments on behalf of the Hospital.

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2. 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.

3. 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.

F. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet / statement of net position includes an adjustment column to facilitate reconciliation between the general fund and governmental activities. As of June 30, 2021, amounts reported for governmental activities in the statement of net position are different because:

- Capital assets, net of accumulated depreciation, or \$1,210,390 used in governmental activities are not current financial resources, and therefore are not reported in the governmental fund balance sheet.
- Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the governmental fund balance sheet. This includes self-insurance of \$386,923.

The governmental fund statement of revenues, expenditures and change in fund balance / statement of activities includes an adjustment column to facilitate reconciliation between the general fund and governmental activities. For the year ended June 30, 2021, amounts reported for governmental activities in the statement of activities are different because:

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The general fund reports capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The Authority reported \$1,210,390 of capital asset additions in the current period.

- Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the general fund. Self-insurance liability increased by \$17,446 in the current period.

G. Reclassification of Enterprise Fund

The Authority has historically reported its government-wide and fund financial statements as business-type activities through an enterprise fund. During 2021, the Authority re-evaluated its government-wide activities and identified they were governmental in nature rather than proprietary in nature. Presentation as of and for the year ended June 30, 2021 was updated to conform to reporting governmental activities and the general fund as the Authority's sole governmental fund. As of July 1, 2020, long-term debt of \$369,477 was reassigned to governmental activities and the remaining assets and liabilities of \$105,906,290 was reassigned to beginning fund balance for the general fund.

H. Implementation of New Accounting Standards

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2018; however, issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95), extended the effective date of GASB 84 to reporting periods beginning after December 15, 2019, with earlier application encouraged. GASB 84 was implemented in the Authority's 2021 financial statements with no impact to amounts reported under previous standards.

I. Recent Accounting Pronouncements

GASB Statement No. 87, *Leases* (GASB 87), establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2019; however, issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95), extended the effective date of GASB 87 to reporting periods beginning after June 15, 2021, with earlier application encouraged. GASB 87 will be implemented in the Authority's fiscal year 2022 financial statements and the impact has not yet been determined.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement 1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset - and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments; and 4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. GASB 96 will be implemented in the Authority's fiscal year 2023 financial statements and the impact has not yet been determined.

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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, 2021, the Authority's bank deposit balances of \$228,609 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.

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, 2021				
Investments reported at net asset value, not subject to level reporting:				
Money market mutual funds	\$ 2,144,879	\$ -	2%	34
Investments reported at fair value:				
Equity securities:				
U.S. equity securities	70,253,548	70,253,548	54%	
Global equity securities	16,702,087	16,702,087	13%	
Fixed income mutual funds:				
U.S. fixed income non-government/ agency	35,782,066	35,782,066	27%	
Global fixed income	4,066,526	4,066,526	3%	
Real estate mutual funds	2,142,727	2,142,727	1%	
Total value	\$ 131,091,833	\$ 128,946,954	100%	
Portfolio weighted average maturity				1

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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 fair value measurements as of June 30, 2021:

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

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

Real Estate Mutual Funds 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, 2021, the Authority's investments in money market mutual funds were rated "AAAm" by Standard & Poor's. Equity securities, fixed income mutual funds, and real estate mutual funds 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 year ended June 30, 2021 consisted of the following:

	<u>2021</u>
Interest and dividend income	\$ 1,822,789
Net realized and unrealized gains	<u>27,215,327</u>
Total investment income	<u><u>\$ 29,038,116</u></u>

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and improvements	\$ -	\$ 1,210,390	\$ -	\$ 1,210,390
Total capital assets not being depreciated	<u>-</u>	<u>1,210,390</u>	<u>-</u>	<u>1,210,390</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 94,642	\$ -	\$ -	\$ 94,642
Total capital assets being depreciated	<u>94,642</u>	<u>-</u>	<u>-</u>	<u>94,642</u>
Less accumulated depreciation for:				
Furniture and equipment	(94,642)	-	-	(94,642)
Total accumulated depreciation	<u>(94,642)</u>	<u>-</u>	<u>-</u>	<u>(94,642)</u>
Total capital assets being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, net	<u><u>\$ -</u></u>	<u><u>\$ 1,210,390</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,210,390</u></u>

Depreciation expense for the year ended June 30, 2021 was \$0.

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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 year ending June 30, 2021 is summarized as follows:

	General and Professional Liability	Workers' Compensation	Total
Balance, beginning of year	\$ 100,000	\$ 269,477	\$ 369,477
Changes in estimates for claims incurred in prior years	-	59,867	59,867
Claims and expenses paid	-	(42,421)	(42,421)
Balance, end of year	\$ 100,000	\$ 286,923	\$ 386,923
Due within one year	\$ -	\$ -	\$ -
Due in more than one year	100,000	286,923	386,923

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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 year 2021 were \$44,752.

Future minimum lease payments at June 30, 2021 are as follows:

Fiscal year	
2022	\$ 44,752
2023	<u>14,917</u>
Future minimum lease payments	<u><u>\$ 59,669</u></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.