

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

Independent Auditor's Report and Financial Statements

June 30, 2015 and 2014



**Tomball Hospital Authority d/b/a  
Tomball Regional Health Foundation**  
June 30, 2015 and 2014

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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 basic financial statements of Tomball Hospital Authority d/b/a Tomball Regional Health Foundation, which comprise the balance sheets as of June 30, 2015 and 2014, 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 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, 2015 and 2014, 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.

***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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, economical or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***BKD, LLP***

Houston, Texas  
November 17, 2015

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

**Balance Sheets  
June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 804,706	\$ 2,260,526
Accrued interest receivable	15,814	202,557
Estimated amounts due from third-party payers	-	1,180,644
Prepaid expenses and other	99,798	103,464
	<hr/>	<hr/>
Total current assets	920,318	3,747,191
	<hr/>	<hr/>
<b>Long-term Investments</b>	88,698,821	86,538,728
	<hr/>	<hr/>
<b>Capital Assets, Net</b>	49,731	631,470
	<hr/>	<hr/>
Total assets	<u>\$ 89,668,870</u>	<u>\$ 90,917,389</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 242,902	\$ 63,571
Estimated amounts due to third-party payers	2,138	-
Estimated self-insurance costs	99,768	83,866
	<hr/>	<hr/>
Total current liabilities	344,808	147,437
<b>Estimated Self-insurance Costs</b>	458,260	601,148
	<hr/>	<hr/>
Total liabilities	803,068	748,585
	<hr/>	<hr/>
<b>Net Position</b>		
Net investment in capital assets	49,731	631,470
Unrestricted	88,816,071	89,537,334
	<hr/>	<hr/>
Total net position	88,865,802	90,168,804
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 89,668,870</u>	<u>\$ 90,917,389</u>

**Tomball Hospital Authority d/b/a  
Tomball Regional Health Foundation**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Revenues</b>	\$ 8,452	\$ 7,128
<b>Operating Expenses</b>		
Salaries and benefits	251,558	210,627
Purchased services and professional fees	226,691	361,535
Program fees	1,041,824	655,560
Supplies and other	81,655	242,098
Depreciation expense	18,929	18,928
Insurance	46,247	96,826
Total operating expenses	1,666,904	1,585,574
<b>Operating Loss</b>	(1,658,452)	(1,578,446)
<b>Nonoperating Revenue (Expenses)</b>		
Investment income	1,976,662	8,399,990
Upper Payment Limit program expense	(1,200,000)	(646,331)
Total nonoperating revenue	776,662	7,753,659
<b>Excess (Deficiency) of Revenues Over Expenses From Continuing Operations</b>	(881,790)	6,175,213
<b>Discontinued Operations</b>		
Gain (loss) from discontinued operations	(421,212)	650,493
<b>Increase (Decrease) in Net Position</b>	(1,303,002)	6,825,706
<b>Net Position, Beginning of Year</b>	90,168,804	83,343,098
<b>Net Position, End of Year</b>	\$ 88,865,802	\$ 90,168,804

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

**Statements of Cash Flows  
Years Ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Activities</b>		
Receipts (payments) on behalf of patients	\$ 1,139,402	\$ (800,827)
Payments to suppliers and contractors	(1,340,406)	(2,138,983)
Payments to employees	(251,558)	(210,627)
Other receipts, net	8,453	7,128
Net cash used in operating activities	<u>(444,110)</u>	<u>(3,143,309)</u>
<b>Noncapital Financing Activity</b>		
Upper Payment Limit program payments	<u>(1,200,000)</u>	<u>(646,331)</u>
Net cash used in noncapital financing activity	<u>(1,200,000)</u>	<u>(646,331)</u>
<b>Capital and Related Financing Activities</b>		
Proceeds from sale of capital assets	347,337	-
Proceeds from sale of capital assets remitted to third party	<u>(162,359)</u>	<u>-</u>
Net cash provided by capital and related financing activities	<u>184,978</u>	<u>0</u>
<b>Investing Activities</b>		
Interest and dividends on investments	1,929,404	1,733,317
Purchases of investments	(32,266,591)	(94,737,507)
Proceeds from disposition of investments	<u>30,340,499</u>	<u>96,579,631</u>
Net cash provided by investing activities	<u>3,312</u>	<u>3,575,441</u>
<b>Decrease in Cash and Cash Equivalents</b>	<u>(1,455,820)</u>	<u>(214,199)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,260,526</u>	<u>2,474,725</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 804,706</u>	<u>\$ 2,260,526</u>
<b>Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (1,658,452)	\$ (1,578,446)
Gain (loss) from discontinued operations	(43,380)	650,493
Depreciation and amortization	18,929	18,928
Changes in operating assets and liabilities:		
Estimated amounts due from and to third-party payers	1,182,782	(1,451,320)
Accounts payable and accrued expenses	52,345	(800,401)
Other current assets and liabilities	<u>3,666</u>	<u>17,437</u>
Net cash used in operating activities	<u>\$ (444,110)</u>	<u>\$ (3,143,309)</u>

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

## **Notes to Financial Statements**

**June 30, 2015 and 2014**

### **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, 2015 and 2014**

### ***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, 2015 and 2014, 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

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

## **Notes to Financial Statements**

**June 30, 2015 and 2014**

### ***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, 2015 and 2014**

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, 2015 and 2014, the Authority submitted approximately \$1,200,000 and \$646,000, 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, 2015 and 2014, 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, 2015 and 2014, the Authority had the following investments and maturities.

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

## Notes to Financial Statements June 30, 2015 and 2014

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
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>
June 30, 2014:					
Money market mutual funds	\$ 804,353	\$ 804,353	\$ -	\$ -	\$ -
Equity securities:					
U.S. equity securities	35,060,734	35,060,734	-	-	-
Global equity securities	14,573,258	14,573,258	-	-	-
Fixed income:					
U.S. fixed income non-government/agency	33,528,249	33,528,249	-	-	-
Global fixed income	2,572,134	2,572,134	-	-	-
	<u>\$ 86,538,728</u>	<u>\$ 86,538,728</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, 2015 and 2014, 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, 2015 and 2014

**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, 2015 and 2014.

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

### **Summary of Carrying Values**

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

	<b>2015</b>	<b>2014</b>
Carrying value:		
Deposits	\$ 804,706	\$ 2,260,526
Investments	88,698,821	86,538,728
	\$ 89,503,527	\$ 88,799,254
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 804,706	\$ 2,260,526
Noncurrent cash and investments	88,698,821	86,538,728
	\$ 89,503,527	\$ 88,799,254

### **Investment Income**

Investment income for the years ended June 30, 2015 and 2014, consisted of the following items:

	<b>2015</b>	<b>2014</b>
Interest and dividend income	\$ 1,742,661	\$ 1,532,792
Net realized and unrealized gains	234,001	6,867,198
	\$ 1,976,662	\$ 8,399,990

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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 4: Capital Assets

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

	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
	2014			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 562,810	\$ -	\$ -	\$ 562,810
Equipment	94,642	-	-	94,642
	657,452	0	0	657,452
Less accumulated depreciation:				
Equipment	7,054	18,928	-	25,982
Capital assets, net	\$ 650,398	\$ (18,928)	\$ 0	\$ 631,470

### 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.

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

## Notes to Financial Statements

June 30, 2015 and 2014

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 2015 and 2014 is summarized as follows:

	<b>2015</b>	
	<b>General and Professional Liability</b>	<b>Workers' Compensation</b>
Balance, beginning of year	\$ 100,000	\$ 585,014
Claims and expenses paid	-	(126,986)
Balance, end of year	\$ 100,000	\$ 458,028
	<b>2014</b>	
	<b>General and Professional Liability</b>	<b>Workers' Compensation</b>
Balance, beginning of year	\$ 100,000	\$ 629,771
Current year claims incurred and changes in estimates for claims incurred in prior years	-	43,012
Claims and expenses paid	-	(87,769)
Balance, end of year	\$ 100,000	\$ 585,014

### 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.

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

**Notes to Financial Statements  
June 30, 2015 and 2014**

Future minimum lease payments at June 30, 2015, were as follows:

2016	\$	48,000
2017		48,000
2018		<u>16,000</u>
Future minimum lease payments	\$	<u><u>112,000</u></u>

**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, 2015 and 2014, there were additional amounts related to the sale of the Hospital that were recognized.