

**TEXAS HEALTH SERVICES
AUTHORITY**

**Financial Statements
and Supplemental Information
as of and for the Year Ended
September 30, 2019 and
Independent Auditors' Report**

TEXAS HEALTH SERVICES AUTHORITY

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	16

**INDEPENDENT
AUDITORS' REPORT**



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Texas Health Services Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Texas Health Services Authority ("THSA") (a nonprofit organization), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise THSA'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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 THSA as of September 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020 on our consideration of THSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of THSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering THSA's internal control over financial reporting and compliance.

Maxwell Locke & Ritter LLP

Austin, Texas
January 31, 2020

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

TEXAS HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2019

This discussion and analysis of Texas Health Services Authority's ("THSA") financial performance provides an overview of THSA's financial activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the accompanying basic financial statements and the notes to those financial statements.

FINANCIAL HIGHLIGHTS

- THSA's total assets were approximately \$1.5 million; of this amount, all funds represent THSA's assets to implement its purposes laid out in Chapter 182 of the Texas Health & Safety Code. Total assets decreased approximately \$157,000 during 2019 primarily due to stalls in implementation of the Texas Health and Human Services Commission's ("HHSC") Implementation Advanced Planning Document ("IAPD").
- THSA's liabilities totaled approximately \$244,000; of this amount, all funds represent THSA's financial commitments to implement its purposes laid out in Chapter 182 of the Texas Health & Safety Code. Total liabilities increased approximately \$228,000 during 2019 primarily due to THSA's contractual obligations to its health information exchange ("HIE") technology vendor to develop the HIE infrastructure for the THSA's contract with the HHSC.
- At the close of the fiscal year ending September 30, 2019, THSA's assets exceeded its liabilities by approximately \$1.2 million. Of this amount, all funds are to be used to meet THSA's ongoing obligations to the public under Chapter 182 of the Texas Health and Safety Code, including allocating funds for the HHSC to leverage as match funding under the IAPD.
- THSA's operating revenues for 2019 totaled approximately \$763,000, and operating expense exceeded operating revenue by approximately \$385,000. Revenue increased in 2019 primarily due to implementing a contract with HHSC to develop HIE infrastructure under the IAPD.
- Operating expenditures for fiscal year 2019 consisted primarily of contractor expense of approximately \$513,000, personnel expense of approximately \$458,000, and office space expense of \$72,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of THSA as prescribed by the Governmental Accounting Standards Board ("GASB") Statement No. 34. THSA's activities are accounted for as a special purpose governmental entity, or single enterprise fund. THSA operates as a single enterprise fund; therefore, the basic financial statements presented are the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. As with all proprietary funds, the financial statements are presented using the economic resources measurement focus.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report information about THSA as a whole. These statements include all assets and liabilities of THSA using the *accrual basis of accounting*. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report THSA's net position and changes in it. Net position is the difference between assets and liabilities, which is one way to measure THSA's financial health, or *financial position*. Over time, *increases or decreases* in THSA's net position are one indicator of whether its *financial health* is improving or deteriorating.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

THE FINANCIAL STATEMENTS

Statement of Net Position

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease) Amount</u>
CURRENT ASSETS	\$ 1,485,096	\$ 1,642,400	\$ (157,304)
CURRENT LIABILITIES	<u>\$ 243,554</u>	<u>\$ 15,538</u>	<u>\$ 228,016</u>
UNRESTRICTED NET POSITION	<u>\$ 1,241,542</u>	<u>\$ 1,626,862</u>	<u>\$ (385,320)</u>

Net position decreased from approximately \$1.6 million to approximately \$1.2 million during fiscal year 2019. Of total net position, approximately \$899,000 is held in cash and cash equivalents. Assets are unrestricted and available for THSA's programs, payment of obligations, and fulfillment of THSA's public purpose.

THSA's total assets decreased from approximately \$1.6 million to approximately \$1.5 million during fiscal year 2019. The largest single factor contributing to this decrease was THSA's spending on operating expenses during fiscal year 2019.

As of September 30, 2019, THSA's current assets totaled approximately \$1.5 million and current liabilities totaled approximately \$244,000, resulting in available net working capital of approximately \$1.2 million. There were no noncurrent assets or liabilities.

Statement of Revenues, Expenses, and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease) Amount</u>
OPERATING REVENUES:			
Connectivity services	\$ 760,000	\$ -	\$ 760,000
Government grants	-	70,700	(70,700)
Certification and accreditation fees	800	5,200	(4,400)
Other income	2,625	8,338	(5,713)
Total operating revenues	<u>763,425</u>	<u>84,238</u>	<u>679,187</u>
OPERATING EXPENSES:			
Contractors	513,106	110,618	402,488
Salaries and fringe benefits	457,797	371,840	85,957
Office space	72,437	76,930	(4,493)
Communication	56,694	96,910	(40,216)
Professional fees	27,441	35,080	(7,639)
Insurance	6,978	20,930	(13,952)
Telephone and internet	4,063	7,950	(3,887)
Travel	36	5,130	(5,094)
Other	10,193	12,040	(1,847)
Total operating expenses	<u>1,148,745</u>	<u>737,428</u>	<u>411,317</u>
OPERATING LOSS	(385,320)	(653,190)	267,870
BEGINNING NET POSITION	<u>1,626,862</u>	<u>2,280,052</u>	<u>(653,190)</u>
ENDING NET POSITION	<u>\$ 1,241,542</u>	<u>\$ 1,626,862</u>	<u>\$ (385,320)</u>

THSA experienced an increase in operating revenue during fiscal year 2019 compared to fiscal year 2018 due to implementing a contract with HHSC to develop HIE infrastructure under the IAPD.

THSA experienced an increase in operating expenses during fiscal year 2019 compared to fiscal year 2018 due to an increase in employee headcount and increased spending on HIE state-level shared services under THSA's new contract with HHSC.

Other expenses are primarily comprised of membership, training, banking fees, and computer and miscellaneous office expenses.

BUSINESS TYPE ACTIVITIES

For the purposes of financial reporting, THSA is a special purpose governmental entity operating a single enterprise fund. All activities of THSA are categorized as business type activities and are accounted for in the financial statements.

BUDGETARY HIGHLIGHTS

THSA is not legally required to adopt a budget, therefore, no budgetary highlights or comparison are required under GASB Statement No. 34. THSA has implemented and adhered to a fiscally conservative budget over the past fiscal year. As was the case during the 2018 fiscal year, THSA continued to operate under budget during fiscal year 2019.

RELEVANT DECISIONS AND ECONOMIC FACTORS

Public Purpose - THSA is organized, operated, and administered exclusively for the purposes noted in its enabling statute, Chapter 182 of the Texas Health and Safety Code. THSA's purpose, as described further in that chapter, is to promote, implement, and facilitate the voluntary and secure electronic exchange of health information.

LEGISLATIVE REPORTING REQUIREMENTS

THSA is required to develop an annual report, including financial information and a progress update on its efforts to carry out its mission, pursuant to Section 182.106 of the Texas Health and Safety Code. This document, in combination with THSA's annual report, adheres to this requirement.

CONTINUANCE SUBJECT TO REVIEW

Under the Texas Sunset Act, THSA will go through the Sunset review process in 2027. Until that time, THSA will remain a governmental entity under Chapter 182, Health & Safety Code. This change was brought about by passage of Texas House Bill 3304 during fiscal year 2019.

CONTACTING THSA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our stakeholders with a general overview of THSA's finances and to show THSA's accountability for the money it receives. If you have questions about this report or need any additional information, contact Texas Health Services Authority at 901 South Mopac Expressway, Building 1, Suite 300, Austin, Texas 78746, or by email at info@thsa.org.

**BASIC
FINANCIAL STATEMENTS**

TEXAS HEALTH SERVICES AUTHORITY

STATEMENT OF NET POSITION SEPTEMBER 30, 2019

ASSETS:

Cash and cash equivalents	\$ 898,616
Accounts receivable	570,000
Prepaid expenses and other assets	<u>16,480</u>
Total assets	<u>\$ 1,485,096</u>

LIABILITIES-

Accounts payable	<u>\$ 243,554</u>
Total liabilities	<u>\$ 243,554</u>

NET POSITION-

Unrestricted	<u>\$ 1,241,542</u>
--------------	---------------------

The notes to the financial statements are an integral part of this statement.

TEXAS HEALTH SERVICES AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED SEPTEMBER 30, 2019

OPERATING REVENUES:

Connectivity services	\$ 760,000
Certification and accreditation fees	800
Other income	<u>2,625</u>
Total operating revenues	763,425

OPERATING EXPENSES:

Contractor	513,106
Salaries	395,247
Office space	72,437
Fringe benefits	62,550
Communication	56,694
Professional fees	27,441
Insurance	6,978
Telephone and internet	4,063
Travel	36
Other	<u>10,193</u>
Total operating expenses	<u>1,148,745</u>

OPERATING LOSS (385,320)

NET POSITION, beginning of year 1,626,862

NET POSITION, end of year \$ 1,241,542

The notes to the financial statements are an integral part of this statement.

TEXAS HEALTH SERVICES AUTHORITY

STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Connectivity services receipts	\$ 190,000
Receipts from participants	800
Other operating cash receipts	2,625
Payments to employees	(457,797)
Payments to suppliers of goods and services	<u>(451,382)</u>
Net cash used in operating activities	(715,754)

CASH AND CASH EQUIVALENTS, beginning of year 1,614,370

CASH AND CASH EQUIVALENTS, end of year \$ 898,616

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (385,320)
Changes in operating assets and liabilities that provided (used) cash:	
Accounts receivable	(570,000)
Prepaid expenses and other assets	11,550
Accounts payable	<u>228,016</u>
Net cash used in operating activities	<u><u>\$ (715,754)</u></u>

The notes to the financial statements are an integral part of this statement.

TEXAS HEALTH SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2019

1. ORGANIZATION

Nature of Activities

In 2007, Texas Health Services Authority (“THSA”) was created through House Bill 1066 as a public private partnership, legally structured as a nonprofit corporation. THSA was created to support the improvement of the Texas healthcare system by promoting and coordinating health information exchange (“HIE”) and health information technology (“HIT”) throughout the state and to ensure that the right information is available to the right healthcare providers at the right times. The mission of THSA is to promote and coordinate the development of a seamless electronic health information infrastructure to improve the quality, safety, and efficiency of the Texas healthcare sector while protecting individual privacy. THSA’s governing Board of Directors (the “Board”) consists of twelve directors, all of which are appointed by the Governor of the State of Texas. THSA is organized, operated, and administered as a nonprofit organization in accordance with Section 501(c)(3) of the Internal Revenue Code (“IRC”).

In 2008, the United States Department of Health and Human Services announced the State Health Information Exchange Cooperative Agreement Program (the “HHSC Program”) to fund state planning and implementation of electronic health information networks and support higher quality, safer, and more efficient healthcare. Texas’ formula-funded allotment over the four year term of the HHSC Program was approximately \$28.8 million, to be allocated between three funding streams for planning, sub-national/regional (“intra-state”) HIE, and nationwide (“inter-state”) HIE.

In 2010, THSA entered into an initial contract with the Texas Health and Human Services Commission (the “HHSC”) to provide assistance in the planning and implementation phase of the HHSC Program focused on promoting and coordinating the development of electronic HIE in Texas. The United States Office of the National Coordinator for HIT approved the Texas Strategic and Operational Plans for Statewide HIE, which enabled THSA to continue its efforts in the intra-state phase outlined in the approved plan.

To strengthen and streamline local coordination of HIEs, THSA is making available to each local HIE network a set of shared services (“HIETexas”), enabling connectivity between authorized HIEs in Texas and across the country. Through HIETexas, local HIEs will have connectivity to each other and to other critical functions that will provide operational savings and offer uniformity in administrative, legal, and compliance functions. In order to participate in HIETexas, an HIE must pay a one-time implementation fee to connect and an annual service fee to maintain participation. The amount of the fee is based on the size of the operational budget of the connecting HIE. With the implementation of a privacy and security certification program, THSA also receives certification fees which are based on the size of the organization.

In 2011, SECURETexas was created as a result of amendments to the Texas Medical Records Privacy Act (“TMRPA”) and THSA’s enabling statute. House Bill 300 (82nd Texas Legislature, 2011) directed THSA to develop and submit privacy and security standards for the electronic sharing of protected health information to the HHSC. Those standards are designed to comply with the Health Insurance Portability and Accountability Act, the TMRPA, and any other state and federal law relating to the security and confidentiality of information electronically maintained or disclosed by a covered entity. The standards further ensure the secure maintenance and disclosure of personally identifiable health information, include strategies and procedures for disclosing personally identifiable health information, and support a level of system interoperability with existing health record databases in Texas that is consistent with emerging standards.

Reporting Entity

Under Government Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, THSA is a special purpose governmental entity and a component unit of the State of Texas for financial reporting purposes. There are no component units included within the reporting entity of THSA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by GASB. THSA presents its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - Management’s Discussion and Analysis for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - THSA accounts for its transactions in an Enterprise Fund. THSA prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flows.

Operating revenues are those revenues that are generated from the primary operations of THSA, and operating expenses are those expenses that are essential to primary operations. When both restricted and unrestricted resources are available for use, THSA will use restricted resources first, then unrestricted resources as they are needed.

THSA complies with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into GASB’s authoritative literature certain accounting and financial reporting guidance that is included in private-sector standards issued on or before November 30, 1989.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents - For the purpose of reporting cash flows, THSA defines cash and cash equivalents as cash and investments that are highly liquid with maturities of three months or less. THSA's Investment Policy (the "Policy") and types of investments are governed by Section 2256 of the Texas Government Code (the "Public Funds Investment Act" or "PFIA"). THSA's management believes that it complied with the requirements of the PFIA and THSA's Policy. THSA accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Fair Value Measurements - THSA complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).
- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Accounts Receivable - Accounts receivable consists of receivables for HIE connectivity services. Management periodically reviews the collectability of accounts receivable and recognizes allowances for estimated bad debts on accounts that are no longer estimated to be collectible. There was no allowance for doubtful accounts as of September 30, 2019, as management deemed all accounts receivable to be fully collectible.

Property and Equipment - Property and equipment are recorded at cost if purchased or at fair value on the date of acquisition if donated. THSA capitalizes all acquisitions of property and equipment that exceed \$5,000. Repairs and maintenance costs are expensed when incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is five years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of revenues, expenses, and changes in net position. As of September 30, 2019, all property and equipment was fully depreciated.

Connectivity Services Revenue - Amounts received for connectivity services associated with THSA's contract with HHSC to develop HIE infrastructure are recognized as services are rendered.

Certification and Accreditation Fees - Amounts received for certification and accreditation fees for participation in HIETexas are recognized as services are provided, and once connectivity is established.

Recently Issued Accounting Pronouncements - In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 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 Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended September 30, 2021.

3. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject THSA to concentrations of credit risk consist principally of accounts receivable. THSA is also subject to concentrations in revenue sources. As of September 30, 2019, amounts owed from the HHSC comprised 100% of the total accounts receivable balance. Connectivity services revenue from the HHSC accounted for 99.5% of total revenue during the year ended September 30, 2019.

4. CASH AND CASH EQUIVALENTS

THSA's deposits are required to be secured in the manner provided by law for the security of the funds. Custodial credit risk is the risk that in the event of a bank failure, THSA's deposits may not be returned. As of September 30, 2019, such deposits were entirely covered by Federal Deposit Insurance Corporation ("FDIC") insurance or secured by collateral pledged by the depository.

Authorized Investments

The PFIA authorizes THSA to invest in funds under a written investment policy. THSA's deposits and investments are invested pursuant to the Policy, which is approved annually by the Board. It is the policy of the Board to be in compliance with the PFIA when applicable, and other applicable laws and best practices. It is also the Board's policy to invest the financial assets of THSA pursuant to the following principles in order of priority and in conformance with all applicable federal and state statutes, rules, and regulations:

1. Preservation and safety of principal;
2. Maintaining liquidity in order to meet cash flow needs and to maintain a self-supporting program; and
3. Providing the highest investment return within the applicable federal and state statutes.

Although THSA held no investments as of September 30, 2019, the following investments, fully insured by the FDIC, are authorized by the Board: certificates of deposit, savings accounts, deposit accounts, money markets or depository receipts of banks, savings and loan associations, mutual savings banks, certain interest-bearing banking deposits, and certain hedging transactions. Also allowable are overnight investments fully collateralized at 102% of the balance. The maximum allowable stated maturity of any individual investment owned by the THSA is 180 days. Statements provided by the holding institution will be used to monitor the market value of invested funds.

For each fund to be invested, the Investment Officer will ensure that there is a separate written investment strategy that addresses the suitability of the investment to the financial requirements of the entity, preservation and safety of principal, liquidity, marketability of investment if the need arises to liquidate before maturity, diversification of the investment portfolio, and yield.

5. COMMITMENTS AND CONTINGENCIES

THSA leases office space under noncancelable operating leases. Rental expense during the year ended September 30, 2019 totaled \$53,474. As of September 30, 2019, future minimum rental payments of \$14,391 were due in the fiscal year ending 2020.

6. RISK MANAGEMENT

THSA's risk management program includes coverage through a third party insurance provider for general and auto liability, property insurance coverage, and workers' compensation. During the year ended September 30, 2019, there were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded insurance limits for the past three years.

7. INCOME TAX STATUS

THSA is a nonprofit corporation exempt from federal income taxes under Section 501(c)(3) of the IRC, except to the extent of any unrelated business income. THSA did not incur any significant tax liabilities due to unrelated business income during the year ended September 30, 2019. THSA files Form 990 tax returns in the U.S. federal jurisdiction and is subject to routine examinations of its returns; however, there are no examinations currently in progress.

8. SUBSEQUENT EVENTS

THSA has evaluated subsequent events through January 31, 2020 (the date the financial statements were available for issue).

During December 2019, THSA entered into a non-cancelable operating lease agreement for office space expiring in December 2020. Future minimum rental payments of \$59,085 are due in the fiscal year ending 2020 under this new lease agreement.

**GOVERNMENT
AUDITING STANDARDS**



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250

www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100

Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300

Round Rock, TX 78664

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Texas Health Services Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Texas Health Services Authority ("THSA"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise THSA's basic financial statements, and have issued our report thereon dated January 31, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered THSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of THSA's internal control. Accordingly, we do not express an opinion on the effectiveness of THSA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether THSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Austin, Texas
January 31, 2020