Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas

Independent Auditor's Report and Financial Statements

February 29, 2020 and February 28, 2019

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
February 29, 2020 and February 28, 2019

Contents

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Independent Auditor's Report

Board of Trustees
Harris County Hospital District,
d/b/a Harris Health System
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Harris County Hospital District, d/b/a Harris Health System (the System), collectively a component unit of Harris County, Texas, as of and for the years ended February 29, 2020 and February 28, 2019, and the related notes to the financial statements, which collectively comprise the System'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 opinions on these financial statements based on our audits. We did not audit the financial statements of the Harris County Hospital District Foundation (Foundation), a discretely presented component unit of the System, which represent 13.6 percent and 13.1 percent of total assets, 28.0 percent and 26.9 percent of net position and 0.3 percent and 0.2 percent of revenues, respectively, of the aggregate discretely presented component units for the years ended February 29, 2020 and February 28, 2019. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits 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. The financial statements of the discretely presented component units, which are included in the System's financial statements, were not audited in accordance with *Government Auditing Standards*.

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 System'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 System'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, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the System as of February 29, 2020 and February 28, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment benefit information, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated June 25, 2020, on our consideration of the System'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 the System'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 the System's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
June 25, 2020

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Management's Discussion and Analysis
February 29, 2020 and February 28, 2019

Introduction

This section of the Harris Health System's (the System or Harris Health) financial report presents background information and management's analysis of the System's financial results for the fiscal years ended February 29, 2020 and February 28, 2019. This section should be read in conjunction with the System's financial statements.

Significant Activities and Initiatives in Fiscal Year 2020

In keeping with its strategic promise to maintain a strong financial foundation, Harris Health has consistently delivered a positive total margin before non-operating expenses for the past five fiscal years 2016-2020. This achievement is a result of remarkable teamwork of Harris Health System's staff members underpinned by the vision of its former President and CEO, George V. Masi. On this solid foundation, the organization built strength and has been able to support both planned changes and unexpected challenges of recent months. The two primary unplanned events that affected operations in fiscal 2020 were a decrease in tax rate for management and operations, and significant resource requests in response to Centers for Medicare and Medicaid Services' (CMS) comprehensive survey of Harris Health.

The formal review of Harris Health System's compliance with Medicare and Medicaid Conditions of Participation was prompted as a result of patient safety issues identified in a June 2019 inspection by the Texas Health and Human Services Commission (HHSC). The February 27, 2020, resurvey by HHSC found Harris Health System in substantial compliance with the applicable Medicare Conditions of Participation. CMS has restored the System's "deemed" status and transferred the survey jurisdiction back to its accrediting organization. For fiscal 2021 and beyond, the path ahead is clearly defined around the commitment to practices that support the highest quality care and patient safety throughout Harris Health.

To assure that the System is fully meeting Medicare's Conditions of Participation and that corrective actions are hardwired into everyday practices, Harris Health committed $20 million to new patient safety initiatives in fiscal 2020 and is making additional investments in fiscal 2021.

Expansion of outside medical services for the indigent has been a strategic priority for Harris Health for the past several years. Inpatient medical cases, psychiatric overflow volume, and hospice referrals have been outsourced where appropriate to assist with throughput and enhance inpatient capacity. In addition, Harris Health continues to contract out for inpatient skilled nursing and rehabilitation care, dialysis, colonoscopy, and sleep studies.

In conjunction with the care coordination, Harris Health is in the third year of a program to subsidize the individual portion of the health insurance marketplace insurance premium for patients who qualify for both the Harris Health Financial Assistance program (resident of Harris County with income below 150% of the federal poverty level) and marketplace coverage under the Affordable Care Act. During calendar year 2019, monthly membership averaged approximately 13,000 individuals, and is projected to increase to an average of 15,000 for the 2020 marketplace year.

Harris Health's component units, the Community Health Choice HMOs (Community Health Choice Texas, Inc. – the Medicaid Managed Care HMO, and Community Health Choice, Inc. – the Health Insurance Marketplace and commercial HMO) experienced a membership decrease of approximately 9.0 percent during both fiscal 2020 and fiscal 2019.

Financial Highlights

- The System's net position increased approximately $91 million (22.7 percent) in fiscal 2020 and decreased $107 million (21.1 percent) in fiscal 2019. The increase in net position for fiscal year 2020 is primarily due to increases in operating revenue as discussed below. Fiscal year 2019 includes a $131 million prior period adjustment for Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). Excluding the $131 million prior period adjustment for GASB 75, the System's net position increased $24 million in fiscal 2019.
- Total assets and deferred outflows of resources increased $235 million (14.6 percent) and $82 million (5.4 percent) in fiscal year 2020 and fiscal year 2019, respectively, due to increases in reimbursement for patient services. This resulted in cash reinvested in operations, i.e. in capital assets and short-term investments. During fiscal 2020 and 2019, the System invested $82 million and $85 million, respectively, in facility related projects, critical information technology and medical equipment. Significant capital acquisitions and resource investments are discussed in the "Capital Assets and Debt Financing" section below.
- The ad-valorem tax base increased approximately 3.9 percent and 3.1 percent in fiscal 2020 and fiscal 2019, respectively. In fiscal 2020, the base rate for maintenance and operations defaulted from 17 cents per one hundred dollars of assessed value to the effective rate of 16.491 cents. The System's tax rate to fund debt service requirements for the Series 2016 Certificates of Obligation was adjusted slightly downward due to the rising valuation.

Financial Statements

The System's financial statements are prepared on the accrual basis of accounting and present the System's operational activities in a manner similar to that of private sector companies. The financial statements consist of three statements: (1) statements of net position, (2) statements of revenues, expenses and changes in net position and (3) statements of cash flow. The statements provide information about the activities of the System, the Harris County Hospital District Foundation (the Foundation), and the Community Health Choice HMOs, which are reported as discretely presented component units. The statements of net position and the statements of revenues, expenses and changes in net position reflect the System's financial position at the end of the fiscal year and report the net position and changes as a result of the revenues and expenses for the year. The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the System at the end of the year. The net position section presents assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Increases or decreases in net position are an indicator of whether financial health is improving or deteriorating. Other nonfinancial factors should be considered, however, in evaluating financial health, such as changes in the System's patient base, changes in economic conditions, taxable property values and tax rates, and changes in government legislation. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and noncapital/capital financing activities. The statement explains where cash came from, how it was used and the change in cash balance during the year.

Net Position

Table 1
Condensed Statements of Net Position
(In millions)

	2020	2019	Dollar Change	Total Percentage Change	2018	Dollar Change	Total Percentage Change
Assets							
Current and other assets	$ 1,244	$ 1,064	$ 180	16.9%	$ 1,066	$ (2)	-0.2%
Capital assets	492	466	26	5.6%	436	30	6.9%
Total assets	1,736	1,530	206	13.5%	1,502	28	1.9%
Deferred outflows of resources:							
Derivative financial instrument	19	8	11	137.5%	6	2	33.3%
Resources related to pension	26	60	(34)	-56.7%	8	52	650.0%
Resources related to OPEB	53	-	53	100.0%	-	-	0.0%
Unamortized loss on refunding debt	9	10	(1)	-10.0%	10	-	0.0%
Total deferred outflows	107	78	29	37.2%	24	54	225.0%
Total assets and deferred outflows of resources	$ 1,843	$ 1,608	$ 235	14.6%	$ 1,526	$ 82	5.4%
Liabilities							
Long-term debt outstanding	$ 305	$ 316	$ (11)	-3.5%	$ 325	$ (9)	-2.8%
Current liabilities	267	165	102	61.8%	158	7	4.4%
Other liabilities	724	726	(2)	-0.3%	508	218	42.9%
Total liabilities	1,296	1,207	89	7.4%	991	216	21.8%
Deferred inflows of resources:							
Resources related to pension	30	-	30	100.0%	27	(27)	-100.0%
Resources related to OPEB	25	-	25	100.0%	-	-	-
Total deferred inflows	55	-	55	100.0%	27	(27)	-100.0%
Net investment in capital assets	174	179	(5)	-2.8%	151	28	18.5%
Restricted	33	33	-	0.0%	32	1	3.1%
Unrestricted	285	189	96	50.8%	325	(136)	-41.8%
Total net position	492	401	91	22.7%	508	$ (107)	-21.1%
Total liabilities and deferred inflows of resources and net position	$ 1,843	$ 1,608	$ 235	14.6%	$ 1,526	$ 82	5.4%

Total net position represents the residual interest in the System's assets and deferred outflows after liabilities and deferred inflows are deducted. As stated previously, net position increased $91 million (22.7 percent) and decreased $107 million (21.1 percent) in fiscal 2020 and 2019, respectively. Fiscal year 2019 includes $131 million prior period adjustment for GASB 75 implementation relating to recognition of the postemployment health benefit liability.

Total assets and deferred outflows of resources increased approximately $235 million (14.6 percent) between fiscal 2019 and fiscal 2020 and increased approximately $82 million (5.4 percent) between fiscal 2018 and fiscal 2019.

- Current and other assets increased $180 million (16.9 percent) from fiscal 2019 to fiscal 2020. Short-term investments increased $177 million (44.4 percent) from fiscal 2019 to fiscal 2020 due to cash inflows from patient service revenues and Medicaid supplemental program revenues that were invested. Restricted cash increased over $35 million (100.0 percent) from 2019 to 2020 due to cash held for the benefit of the newly established Harris County Hospital District Local Provider Participation Fund at February 29, 2020. Assets limited as to use decreased $39 million (41.0 percent) due to the use of the 2016 bond proceeds for the Ben Taub Hospital construction projects. Current and other assets decreased $2 million (0.2 percent) from fiscal 2018 to fiscal 2019.
- Capital assets are discussed in detail following Table 3.
- Deferred outflows of resources consist of the fair market value of derivatives, unamortized losses on refunding of debt and resources related to the System's pension and postemployment health benefit liability plans. In fiscal 2020, deferred outflows related to derivatives increased $11 million due to current interest rates, pension decreased $34 million due to actual versus projected investment performance, and postemployment health benefit increased $53 million due to changes in actuarial assumptions. In fiscal 2019, deferred outflows related to pension increased $52 million due to actual versus projected investment performance.

Total liabilities and deferred inflows of resources increased $144 million (11.9 percent) and $189 million (18.6 percent) in fiscal 2020 and 2019, respectively.

- In 2020 and 2019, reductions in bond-related debt reflect scheduled debt service payments as discussed in detail in "Capital Assets and Debt Financing" below.
- Other liabilities decreased $2 million or 0.3 percent in fiscal 2020 and increased $218 million or 42.9 percent in fiscal 2019.
    - The System's net obligation for the provision of certain postemployment healthcare benefits increased approximately $42 million in fiscal 2020, and $134 million in fiscal 2019 (of which $131 million was attributable to implementation of GASB 75).
    - The System's net pension liability decreased $55 million in fiscal 2020 and increased $99 million in fiscal 2019, primarily due to change in net investment income and changes in actuarial assumptions.
    - In fiscal 2020, the derivative liability increased $11 million (141.4 percent) due to current interest rates.
- Deferred inflows of resources related to pension and postemployment health benefit increased $55 million in fiscal 2020 and decreased $27 million in fiscal 2019, due to actual versus projected investment performance and changes in assumptions.

Summary of Revenues, Expenses and Changes in Net Position

The following table summarizes the System's revenues and expenses for each of the years ended February 29, 2020, and February 28, 2019 and 2018, and the changes in net position during each of those years.

Table 2
Condensed Summary of Revenues, Expenses and Changes in Net Position
(In thousands)

	2020	2019	2018
Operating Revenues			
Net patient service revenue	$ 591,357	$ 477,758	$ 402,551
Medicaid supplemental programs revenues	290,557	194,478	266,468
Other operating revenues	32,938	27,147	27,143
Total operating revenues	914,852	699,383	696,162
Operating Expenses			
Salaries, wages and benefits	837,609	760,390	756,589
Purchased services, supplies and other	717,313	616,352	574,661
Depreciation and amortization	54,650	53,349	53,963
Total operating expenses	1,609,572	1,430,091	1,385,213
Operating Loss	(694,720)	(730,708)	(689,051)
Nonoperating Revenues			
Ad valorem tax revenues - net	767,515	739,022	717,017
Tobacco settlement revenues	13,797	15,248	13,424
Investment income	15,089	11,423	7,815
Total nonoperating revenues	796,401	765,693	738,256
Nonoperating Expenses			
Interest expense	(10,866)	(11,168)	(11,280)
Other	(604)	(97)	(453)
Contribution to HMO	-	-	(60,000)
Total nonoperating expenses	(11,470)	(11,265)	(71,733)
Income (Loss) Before Capital Contributions	90,211	23,720	(22,528)
Capital contributions	-	769	169
Change in net position	90,211	24,489	(22,359)
Net Position - Beginning of Year, as Previously Stated	401,334	507,935	530,294
Prior period adjustment	-	(131,090)	-
Net Position - Beginning of Year, as Restated	401,334	376,845	530,294
Net Position - End of Year	$ 491,545	$ 401,334	$ 507,935

Operating Revenues

Operating revenues increased $215 million (30.8 percent) during the fiscal year ended February 29, 2020. During the year ended February 28, 2019, the System's total operating revenue increased $3 million (0.5 percent).

- Net patient service revenue increased $114 million in fiscal 2020 and $75 million in fiscal 2019. The majority of the increase was attributed to approximately $50 million growth in Medicare disproportionate share (DSH) add-on payments in both fiscal 2020 and fiscal 2019. The change in the Medicare DSH was due to the phased-in adoption by CMS of the Medicare cost report uncompensated care methodology. The revised calculations typically benefit large urban safety net hospitals, such as the System. In addition, the expansion of the health insurance marketplace discussed earlier contributed to enhanced reimbursement.

- The System participates in the Uncompensated Care (UC) Pool, Medicaid Disproportionate Share (Medicaid DSH), Delivery System Reform Incentive Payment (DSRIP) Pool, Network Access Improvement Program (NAIP), Uniform Hospital Rate Increase Program (UHRIP) and Graduate Medical Education (GME) Medicaid supplement programs. Revenue from government programs increased $96 million in fiscal 2020 due to resizing of the UC Pool and a change in allocation methodology under the Medicaid 1115 Waiver effective for federal fiscal year 2020. In fiscal 2019, supplemental program revenue decreased by $72 million mostly due to the decline in the Medicaid DSH and UC distribution. The decline was due to the settlement of the Children's hospitals' lawsuit and the elimination of certain commercial and Medicare payment offsets to Medicaid costs.

Operating Expenses

Total operating expenses increased $179 million (12.6 percent) during the fiscal year ended February 29, 2020. During the year ended February 28, 2019, the System's total operating expenses increased $45 million (3.2 percent).

- Purchased services, supplies, and other operating expenses increased $101 million (16.4 percent) in fiscal 2020, primarily due to increases in physician cost, purchased clinical services, and medical insurance subsidies. In fiscal 2019, the same category of expenses increased $42 million (7.3 percent).

- In fiscal 2020, the System's salaries and wages increased $52 million (9.3 percent) as a result of multiple contributing factors. Harris Health implemented a combined 4.0 percent wage increase and market adjustment to keep up with the healthcare market in Houston. In addition, an unplanned staffing growth of over 3.0 percent occurred due to the CMS resurvey preparedness activities. Lastly, the System performed an update in the paid time-off accrual methodology at year end. In fiscal 2019, salaries and wages increased $15 million (2.8 percent) as a result of an increase to the minimum wage and an average wage increase of 3.0 percent.

- Related benefits increased $25 million (12.4 percent) in fiscal 2020 primarily due to increase in the workforce and increased postretirement health benefits as a result of updated actuarial estimates. In fiscal 2019, benefits decreased $11 million (5.2 percent) primarily because of the decreased postretirement health benefits due to the benefit policy revisions enacted in September 2018.

Overall, the System's operating loss improved 4.9 percent from 2019 to 2020 and declined 6.0 percent from 2018 to 2019 as a result of the items discussed above. The System receives property tax revenues to subsidize the cost of services provided to qualified uninsured patients. Although the costs incurred to provide these services are reflected above as operating expenses, the property tax revenues are required to be reported as non-operating revenues.

Non-operating Revenues (Expenses)

Non-operating revenues and expenses consist of revenues and expenses related to financing and investing types of activities, including grants and donations for activities not considered as operating activities, and include property tax revenue, investment income, tobacco settlement funds, interest expense, contribution to HMO, and gains or losses on disposal of assets.

Tax revenues, net of related expenses, increased over $28 million, or 3.9 percent, in fiscal 2020 and $22 million, or 3.1 percent, in fiscal 2019. As referenced earlier, in October 2019, by order of the Harris County's Commissioners Court, the current tax rate for maintenance and operations of 17.000 cents per one hundred dollars of assessed value defaulted to the effective rate of 16.491 cents per one hundred dollars of property valuation. Despite the rate cut, tax revenues incrementally increased due to the corresponding growth in the ad-valorem tax base in Harris County.

The System received approximately $14 million and $15 million in tobacco settlement revenue in fiscal year 2020 and 2019, respectively.

Capital Assets and Debt Financing

During fiscal 2020 and 2019, the System invested $82 million and $85 million, respectively, in information technology, equipment, and facility expansion and renovation. Of note, semi-private room conversions at Ben Taub and LBJ hospitals were completed in fiscal 2020. Expansion of operating suites at Ben Taub Hospital was completed in fiscal 2020 as well. The new rooms will increase operative hours resulting in additional cases and related clinic visits.

Table 3 summarizes the changes in the System's capital assets between February 29, 2020, and February 28, 2019 and 2018:

Table 3
Changes in Capital Assets
(In thousands)

	2020	2019	Dollar change	Total percentage change	2018	Dollar change	Total percentage change
Land and improvements	$ 46,180	$ 45,435	$ 745	1.6%	$ 43,096	$ 2,339	5.4%
Buildings and fixed equipment	706,083	659,640	46,443	7.0%	641,490	18,150	2.8%
Major movable equipment	410,477	387,639	22,838	5.9%	365,114	22,525	6.2%
Subtotal	1,162,740	1,092,714	70,026	6.4%	1,049,700	43,014	4.1%
Less accumulated depreciation	(710,212)	(688,486)	(21,726)	3.2%	(647,193)	(41,293)	6.4%
Construction in progress	39,922	62,068	(22,146)	-35.7%	33,459	28,609	85.5%
Capital assets - net	$ 492,450	$ 466,296	$ 26,154	5.6%	$ 435,966	$ 30,330	7.0%

Harris Health is continuously assessing its facilities, equipment and technology to determine the priorities for replacement, repair and any new acquisitions. The assessment and prioritization methodology addresses patient safety, building and code compliance requirements, planned equipment obsolescence, and new technology. As a result, the System's overall capital budget for fiscal 2021 is $122 million, of which $76 million is funded from operations as routine capital, and $46 million is funded by the issuance of Certificates of Obligation and philanthropy.

The $76 million investment in routine capital expenditures includes $12 million in information technology, $9 million in medical equipment, and $50 million in renovations of current facilities.

In addition to its routine capital commitment, Harris Health intends to fund another $46 million in capital improvements for the Ben Taub Emergency Center renovation, the purchase and installation of certain medical equipment in Harris County's jail facilities, and the purchase and installation of an upgraded Epic Systems medical record system in Harris County's portion of facilities in connection with the future provision of healthcare services in the facilities.

At February 29, 2020 and February 28, 2019, the System had $233 million and $239 million, respectively, in outstanding revenue bonds. Moody's has an underlying rating of Aa1, Fitch of AA, and Standard and Poor's has a rating of AA- on the revenue bond obligations. The debt is scheduled to be repaid in 2042. The debt is issued in the name of the Harris County Hospital District. Any issuance of debt requires the approval of the System's Board of Trustees and the Harris County Commissioners' Court.

An interest rate swap and derivative liability are associated with the Series 2010 refunding and revenue bonds. The fair value of the interest rate swap was reported as a derivative liability of $19 million and $8 million at February 29, 2020 and February 28, 2019, respectively. An off-market element associated with the swap is reported as a borrowing payable in the amount of $10 million at February 29, 2020 and February 28, 2019.

Table 4 below summarizes the System's debt obligations at February 29, 2020, and February 28, 2019 and 2018:

Long-Term Debt Obligations
(In thousands)

	2020	2019	2018
Series 2010 revenue bonds	$ 84,975	$ 87,325	$ 89,595
Series 2016 revenue bonds	159,786	164,559	169,176
Series 2016 certificates of obligation	60,631	63,551	66,389
Other	98	174	249
Total long-term debt and other long-term obligations	305,490	315,609	325,409
Less current portion	(8,930)	(8,546)	(8,180)
Noncurrent portion	$ 296,560	$ 307,063	$ 317,229

Economic Conditions and Plan for Fiscal 2021

The approved fiscal 2021 operating and capital budget for Harris Health System demonstrates its unwavering dedication to patient safety and improving the quality of care for those most in need in Harris County. The demand for services by the uninsured population of Harris County, coupled with the imperative to improve patient safety and outcomes, continues to strain existing capacity and resources. After accounting for inflationary increases (about $50 million annually), Harris Health is choosing to strategically invest its limited incremental resources in fiscal 2021 into initiatives in patient safety as its first priority.

Based upon assumptions regarding revenue and service projections, the planned 1.0 percent operating margin of $17 million in fiscal 2021 will allow Harris Health System to continue with its infrastructure modernization and delivery of high-quality healthcare to Harris County residents. The capital budget of $122 million underlines the ongoing effort to manage operations and to be able to reinvest in the infrastructure of the System. Management projects a stable cash flow performance for fiscal 2021 and maintenance of the required day's cash on hand under the Harris Health System revenue bond covenants.

Subsequent Events

As a result of the spread of the COVID-19 coronavirus, there has been significant disruption to patient care operations since February 29, 2020, resulting in both volume and net patient revenue declines. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The System expects this matter to impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Contacting the System's Financial Management

This financial report is designed to provide taxpayers, creditors and patients with a general overview of the Harris Health System's finances and to demonstrate the System's accountability for funds it receives. The report is available at https://www.harrishealth.org. If you have questions about this report or need further financial information, contact the Harris Health System, 2525 Holly Hall, Houston, Texas 77054, Attention: Michael Norby, Executive Vice President and Chief Financial Officer (Michael.Norby@harrishealth.org).

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas

Statements of Net Position

February 29, 2020 and February 28, 2019
(In thousands)

Assets and Deferred Outflows of Resources	2020 Harris Health System	2020 Component Units Foundation	2020 Component Units Community Health Choice, Inc.	2020 Component Units Community Health Choice Texas, Inc.	2019 Harris Health System	2019 Component Units Foundation	2019 Component Units Community Health Choice, Inc.	2019 Component Units Community Health Choice Texas, Inc.
Current Assets								
Cash and cash equivalents	$ 331,524	$ 107	$ 47,713	$ 138,389	$ 343,522	$ 231	$ 103,549	$ 130,642
Short-term investments	574,041	-	25,341	25,637	397,466	-	30,363	15,411
Accounts receivable – net of allowance for uncollectible accounts of $51,835 and $65,011	77,348	-	-	-	78,814	-	-	-
Current portion of ad valorem taxes receivable – net of allowance for uncollectible taxes of $7,826 and $7,507	32,872	-	-	-	31,049	-	-	-
Inventories	10,296	-	-	-	7,991	-	-	-
Medicaid supplemental programs receivable	44,171	-	-	-	35,268	-	-	-
Prepaid expenses and other current assets	20,970	1,298	111,754	32,530	28,470	1,114	37,595	26,230
Estimated third-party payor settlements	35,284	-	-	-	29,821	-	-	-
Due from Community Health Choice, Inc.	13,161	-	-	-	9,117	-	-	-
Due from Community Health Choice Texas, Inc.	-	-	5,884	-	-	-	7,925	-
Restricted cash equivalents - Local Provider Participation Fund	35,894	-	-	-	-	-	-	-
Current portion of assets limited as to use or restricted	6,834	-	-	-	6,595	-	-	-
Total current assets	1,182,395	1,405	190,692	196,556	968,113	1,345	179,432	172,283
Assets Limited as to Use or Restricted – Net of Current Portion								
Debt service	25,627	-	-	-	25,098	-	-	-
BT level 1 trauma	7,895	-	-	-	29,349	-	-	-
Cash on deposit with county - project management	21,736	-	-	-	39,887	-	-	-
Other	924	52,468	3,425	600	840	44,664	3,325	600
Total assets limited as to use or restricted – net	56,182	52,468	3,425	600	95,174	44,664	3,325	600

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Statements of Net Position (Continued)
February 29, 2020 and February 28, 2019
(In thousands)

Assets and Deferred Outflows of Resources (Continued)	2020				2019			
		Component Units				Component Units		
	Harris Health System	Foundation	Community Health Choice, Inc.	Community Health Choice Texas, Inc.	Harris Health System	Foundation	Community Health Choice, Inc.	Community Health Choice Texas, Inc.
Capital Assets								
Land and improvements	$ 46,180	$ -	$ -	$ -	$ 45,435	$ -	$ -	$ -
Buildings and fixed equipment	706,083	-	-	-	659,640	-	-	-
Major movable equipment	410,477	-	-	-	387,639	-	-	-
Less accumulated depreciation	(710,212)	-	-	-	(688,486)	-	-	-
Total depreciable capital assets – net	452,528	-	-	-	404,228	-	-	-
Construction in progress	39,922	-	-	-	62,068	-	-	-
Capital assets – net	492,450	-	-	-	466,296	-	-	-
Other Assets								
Ad valorem taxes receivable – net of current portion and allowance for uncollectible taxes of $34,195 and $34,673	268	-	-	-	276	-	-	-
Long-term investments	-	-	-	9,698	-	-	1,557	15,037
Other assets	4,660	9,395	-	-	66	10,316	-	-
Total other assets	4,928	9,395	-	9,698	342	10,316	1,557	15,037
Total assets	1,735,955	63,268	194,117	206,854	1,529,925	56,325	184,314	187,920
Deferred Outflows of Resources								
Derivative financial instrument	19,115	-	-	-	7,918	-	-	-
Resources related to pension	25,659	-	-	-	60,122	-	-	-
Resources related to OPEB	53,026	-	-	-	-	-	-	-
Loss on refunding revenue bonds	8,891	-	-	-	9,588	-	-	-
Total deferred outflows of resources	106,691	-	-	-	77,628	-	-	-
Total assets and deferred outflows of resources	$ 1,842,646	$ 63,268	$ 194,117	$ 206,854	$ 1,607,553	$ 56,325	$ 184,314	$ 187,920

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Statements of Net Position (Continued)
February 29, 2020 and February 28, 2019
(In thousands)

	2020				2019			
		Component Units				Component Units		
Liabilities, Deferred Inflows of Resources and Net Position	Harris Health System	Foundation	Community Health Choice, Inc.	Community Health Choice Texas, Inc.	Harris Health System	Foundation	Community Health Choice, Inc.	Community Health Choice Texas, Inc.
Current Liabilities								
Accounts payable and accrued liabilities	$ 109,104	$ 50	$ 20,840	$ 14,959	$ 71,539	$ 56	$ 30,899	$ 2,900
Interest payable	472	-	-	-	528	-	-	-
Employee compensation and related benefit liabilities	46,788	-	-	-	32,825	-	-	-
Postemployment health benefit liability	16,423	-	-	-	16,228	-	-	-
Compensated absences	46,902	-	-	-	35,249	-	-	-
Medicaid supplemental programs revenue received in advance	1,367	-	-	-	1,738	-	-	-
Intergovernmental transfer obligation	35,894	-	-	-	-	-	-	-
Medical claims liability	-	-	70,965	95,736	-	-	62,774	87,175
Liabilities related to the Affordable Care Act	-	-	15,870	-	-	-	16,998	-
Due to Harris Health System	-	-	13,785	-	-	-	10,462	-
Due to Community Health Choice Texas, Inc.	-	-	-	-	-	-	-	-
Due to Community Health Choice, Inc.	-	-	-	5,884	-	-	-	7,925
Estimated third-party payor settlements	9,644	-	-	-	6,210	-	-	-
Current portion of long-term debt and capital leases	8,930	-	-	-	8,546	-	-	-
Total current liabilities	275,524	50	121,460	116,579	172,863	56	121,133	98,000
Other Long-Term Liabilities								
Postemployment health benefit liability	470,007	-	-	-	428,093	-	-	-
Net pension liability	224,938	-	-	-	279,900	-	-	-
Borrowing payable	9,612	-	-	-	10,366	-	-	-
Derivative liability	19,115	-	-	-	7,918	-	-	-
Other	32	-	-	-	16	-	-	-
Long-Term Debt								
Series 2010 refunding revenue bonds	82,525	-	-	-	84,975	-	-	-
Series 2016 refunding revenue bonds - including premium of $12,171 and $13,119	155,766	-	-	-	160,734	-	-	-
Series 2016 certificates of obligation - including premium of $5,626 and $6,251	58,221	-	-	-	61,256	-	-	-
Other long-term obligations – capital leases	48	-	-	-	98	-	-	-
Total liabilities	1,295,788	50	121,460	116,579	1,206,219	56	121,133	98,000

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Statements of Net Position (Continued)
February 29, 2020 and February 28, 2019
(In thousands)

	2020				2019			
		Component Units				Component Units		
Liabilities, Deferred Inflows of Resources and Net Position (Continued)	Harris Health System	Foundation	Community Health Choice, Inc.	Community Health Choice Texas, Inc.	Harris Health System	Foundation	Community Health Choice, Inc.	Community Health Choice Texas, Inc.
Deferred Inflows of Resources								
Resources related to pension	$ 30,310	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Resources related to OPEB	25,003	-	-	-	-	-	-	-
Total deferred inflows of resources	55,313	-	-	-	-	-	-	-
Commitments and Contingencies								
Net Position								
Net investment in capital assets	173,532	-	-	-	162,924	-	-	-
Restricted for debt service	32,461	-	-	-	31,692	-	-	-
Restricted – other	924	33,425	3,425	600	840	29,340	3,325	600
Unrestricted	284,628	29,793	69,232	89,675	205,878	26,929	59,856	89,320
Total net position	491,545	63,218	72,657	90,275	401,334	56,269	63,181	89,920
Total liabilities, deferred inflows of resources and net position	$ 1,842,646	$ 63,268	$ 194,117	$ 206,854	$ 1,607,553	$ 56,325	$ 184,314	$ 187,920

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended February 29, 2020 and February 28, 2019
(In thousands)

	2020				2019			
		Component Units				Component Units		
	Harris Health System	Foundation	Community Health Choice, Inc.	Community Health Choice Texas, Inc.	Harris Health System	Foundation	Community Health Choice, Inc.	Community Health Choice Texas, Inc.
Operating Revenues								
Net patient service revenue	$ 591,357	$ -	$ -	$ -	$ 477,758	$ -	$ -	$ -
Medicaid supplemental programs revenue	290,557	-	-	-	194,478	-	-	-
Premium revenue	-	-	745,403	976,421	-	-	711,477	959,876
Other operating revenues	32,938	4,977	981	-	27,147	4,049	4,769	-
Total operating revenues	914,852	4,977	746,384	976,421	699,383	4,049	716,246	959,876
Operating Expenses								
Salaries, wages, and benefits	837,609	535	40,649	29,267	760,390	508	27,607	36,722
Pharmaceuticals and supplies	216,809	24	5,567	3,864	208,366	13	2,188	3,134
Physician services	285,926	-	-	-	250,863	-	-	-
Medical claims expense	-	-	608,893	921,691	-	-	579,523	879,355
Other purchased services	214,578	3,251	65,805	42,390	157,123	2,776	74,518	40,651
Depreciation and amortization	54,650	-	-	-	53,349	-	-	-
Total operating expenses	1,609,572	3,810	720,914	997,212	1,430,091	3,297	683,836	959,862
Operating Income (Loss)	(694,720)	1,167	25,470	(20,791)	(730,708)	752	32,410	14
Nonoperating Revenues (Expenses)								
Ad valorem tax revenues – net	767,515	-	-	-	739,022	-	-	-
Tobacco settlement revenues	13,797	-	-	-	15,248	-	-	-
Investment income	15,089	6,067	2,006	3,146	11,423	15,457	3,035	2,042
Interest expense	(10,866)	-	-	-	(11,168)	-	-	-
Other, net	(604)	(285)	-	-	(97)	(170)	10	-
Total nonoperating revenues (expenses) – net	784,931	5,782	2,006	3,146	754,428	15,287	3,045	2,042
Capital Contributions	-	-	-	-	769	-	-	-
Changes in net position	90,211	6,949	27,476	(17,645)	24,489	16,039	35,455	2,056
Net Position – Beginning of Year	401,334	56,269	63,181	89,920	376,845	40,230	62,726	52,864
Net Position Transfer of Surplus	-	-	(18,000)	18,000	-	-	(35,000)	35,000
Net Position – End of Year	$ 491,545	$ 63,218	$ 72,657	$ 90,275	$ 401,334	$ 56,269	$ 63,181	$ 89,920

Harris County Hospital District, d/b/a Harris Health System, A Component Unit of Harris County, Texas

Statements of Cash Flows

Years Ended February 29, 2020 and February 28, 2019
(In thousands)

	2020 Harris Health System	2019 Harris Health System
Operating Activities		
Receipts from and on behalf of patients	$ 593,472	$ 446,285
Receipts from Medicaid supplemental programs	281,283	168,628
Receipts from incentive programs and grants	11,135	9,850
Receipts from other revenues	17,083	17,688
Payments to suppliers	(678,627)	(633,629)
Payments to employees and for employee benefits	(788,884)	(736,051)
Net cash used in operating activities	(564,538)	(727,229)
Noncapital Financing Activities		
Contributions – net	584	526
Ad valorem taxes – net	760,940	738,579
Tobacco settlement revenues	13,797	15,248
Net cash provided by noncapital financing activities	775,321	754,353
Capital and Related Financing Activities		
Receipt of property taxes for debt service	4,626	4,678
Capital contribution	-	769
Acquisitions and construction of capital assets	(60,668)	(48,197)
Project management - cash on deposit with Harris County	(1,309)	(12,843)
Interest paid	(12,536)	(12,886)
Repayment of long-term debt	(8,545)	(8,179)
Net cash used in capital and related financing activities	(78,432)	(76,658)
Investing Activities		
Receipts of investment income – including realized gains and losses	11,834	12,567
Decrease (increase) in cash equivalents included in assets limited as to use or restricted	38,957	(34,608)
Other investing activities	(2,190)	-
Purchases of investment securities	(737,701)	(582,643)
Proceeds from sale and maturities of investment securities	544,751	787,694
Net cash provided by (used in) investing activities	(144,349)	183,010
Net Increase (Decrease) in Cash and Cash Equivalents	(11,998)	133,476
Cash and Cash Equivalents - Beginning of Year	343,522	210,046
Cash and Cash Equivalents - End of Year	$ 331,524	$ 343,522

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Statements of Cash Flows (Continued)
Years Ended February 29, 2020 and February 28, 2019
(In thousands)

	2020 Harris Health System	2019 Harris Health System
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (694,720)	$ (730,708)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	54,650	53,349
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	1,466	(12,402)
Decrease (increase) in inventories	(2,305)	1,948
Decrease (increase) in Medicaid supplemental program receivable	(8,903)	(13,188)
Decrease (increase) in prepaid expenses and other assets	4,743	(16,462)
Increase in estimated third-party payor settlements	(5,463)	(19,493)
Increase (decrease) in accounts payable and accrued liabilities	33,418	(1,104)
Increase (decrease) in net pension liability	(54,962)	99,407
Increase in employee compensation and related benefit liabilities	13,963	2,492
Increase (decrease) in compensated absences	11,653	(1,504)
Increase (decrease) in Medicaid supplemental programs revenue received in advance	(371)	(12,662)
Increase (decrease) in estimated third-party payor settlements	3,434	(846)
Increase in postemployment health benefit liability	42,109	3,393
Increase (decrease) in deferred inflows of resources - pension	30,310	(26,968)
Decrease (increase) in deferred outflows of resources - pension	34,463	(52,481)
Increase in deferred inflows of resources - OPEB	25,003	-
Increase in deferred outflows of resources - OPEB	(53,026)	-
Total adjustments	130,182	3,479
Net cash used in operating activities	$ (564,538)	$ (727,229)
Supplemental Disclosures of Noncash Operating, Financing and Investing Activities		
Unrealized gain on investments	$ 2,232	$ 252
Amounts related to acquisition of capital assets in accounts payable and accrued liabilities	20,602	16,334
Impact of GASB 75 adoption	-	131,090

Note 1: Organization and Mission

Harris County Hospital District, d/b/a Harris Health System, (the System), a component unit of Harris County, Texas, was created by authorization of the legislature of the State of Texas and subsequent approval by the voters of Harris County, Texas, in November 1965. The System provides patient care to the indigent population of Harris County and receives property taxes levied by Harris County for the provision of this care. The System operates two acute care hospitals and a psychiatric unit, with a total of 617 licensed beds. The hospital-based skilled nursing and rehabilitation facility was converted in January 2019 to provide outpatient services only. The System also operates 18 primary care health clinics including the nation's first free-standing HIV/AIDS treatment center; three large multi-specialty clinics; five same day clinics; five school-based clinics; a free-standing dental center; a dialysis center; a geriatric assessment center; ten homeless shelter clinics; and a mobile immunization and medical outreach program. The System is exempt from federal income taxes.

The System is a component unit of Harris County, Texas (legally separate from Harris County, Texas) since the members of the System's governing board are appointed by the Harris County Commissioners' Court. The Harris County Commissioners' Court approves the System's tax rate and annual operating and capital budget. Harris County, Texas does not provide any funding to the System, hold title to any of the System's assets or have any rights to any surpluses of the System.

The System's primary mission is to provide quality preventive, medical, hospital and emergency care to the indigent and needy of Harris County and to others with the ability to pay. All activities conducted by the System are directly associated with the furtherance of this mission and are, therefore, considered to be operating activities.

The Harris County Hospital District Foundation (the Foundation), was organized in 1993. The Foundation is a nonprofit, tax-exempt corporation organized under Section 501 (c)(3) of the Internal Revenue Code whose primary purpose is to raise funds to support the operations and activities of the System. Although the System does not control the timing or amount of receipts from the Foundation, the majority of resources (or income thereon) that the Foundation holds and invests is restricted to the activities of the System by the donor. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the System, the Foundation is considered a component unit of the System and is included in the System's financial statements. The Foundation is reported as a discretely presented component unit of the System. Financial reports for the Foundation can be obtained from the Harris County Hospital District Foundation, 2525 Holly Hall, Suite 292, Houston, Texas 77054. Attention: Jeffrey Baker, Executive Director (Jeffrey.Baker@harrishealth.org).

Community Health Choice, Inc. and Community Health Choice Texas, Inc. (the HMOs) are Texas not-for-profit corporations organized under Section 501(c)(4) of the Internal Revenue Code to operate as health maintenance organizations. Community Health Choice, Inc. was incorporated on May 8, 1996, licensed by the Texas Department of Insurance on February 14, 1997, and as of December 31, 2019, offered three Medicaid insurance products as well as individual health insurance on the Health Insurance Marketplace. Community Health Choice Texas, Inc. was formed in August 2016 to allow the Health Insurance Marketplace and the Medicaid insurance products to be provided and served by separate corporations. Community Health Choice, Inc. is the Health Insurance Marketplace and commercial HMO with 83,163 and 110,594 enrollees as of December 31, 2019 and 2018, respectively, and Community Health Choice Texas, Inc. is the Medicaid Managed Care HMO with 272,558 and 278,593 enrollees as of December 31, 2019 and 2018, respectively. The HMOs are reported as discretely presented component units of the System since the Board of Directors are appointed by the System's Board of Trustees and the System can impose its will on the HMOs. The differences in amounts due to the System and due from the HMOs in the accompanying statements of net position are primarily due to the presentation of the HMOs financials based on their fiscal year-end of December 31. Financial reports for the HMOs can be obtained from Community Health Choice, Inc., 2636 South Loop West, Ste. 125, Houston, Texas 77054, Attention: Brian P. Maude, Executive Vice President and Chief Financial Officer (Brian.Maude@CommunityHealthChoice.org).

Unless otherwise noted, the following notes do not include the Foundation or the HMOs.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Method of Accounting

Under the provisions of the American Institute of Certified Public Accountants' *Audit and Accounting Guide, Health Care Organizations*, the System is considered a governmental organization and is subject to the pronouncements of the Governmental Accounting Standards Board (GASB).

In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the System's financial statements include the statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows.

The statement of net position requires that total net position be reported in three components (a) net investment in capital assets, (b) restricted; and (c) unrestricted.

- "Net investment in capital assets" consists of capital assets, net of accumulated depreciation, reduced by the amount outstanding for any bonds, notes, or other financing liabilities that were incurred related to the acquisition, construction or improvement of the capital assets.
- "Restricted" consists of restricted assets reduced by liabilities and deferred inflows of resources related to the assets and are primarily for debt service.

- "Unrestricted" is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the System's practice to apply that expense to restricted net position to the extent such are available and then to unrestricted.

The Foundation is a private not-for-profit organization that reports under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the GASB. The Foundation's financial statement formats were modified to make them compatible with the System's financial statement formats.

The HMOs are licensed only in the state of Texas and report under Governmental Accounting Standards Board pronouncements. The HMOs' financial statement formats were modified to make them compatible with the System's financial statement formats.

Reporting Entity

The financial statements include the accounts of the System, the Foundation and the HMOs, as described in *Note 1*. In accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements Nos. 14 and 34,* the System reports the HMOs and the Foundation as discretely presented component units in its financial statements. Management of the System believes the separate presentation of the System's statements and of each discretely presented component unit to be the most reflective of the System's activities.

Transactions between the System and its component units include the following:

The System provides certain administrative services to the HMOs including employment of all individuals who perform the day-to-day requirements of the business functions of the HMOs. The HMOs reimburse the System for such salaries, wages and benefits and these costs are reflected as expenses of the HMOs. An additional fee for indirect costs approximating $3 million and $2 million for fiscal years 2020 and 2019, respectively, is included as a revenue and expense in the System/HMO financial statements. As permitted and limited by the state of Texas laws applicable to insurance companies, the HMOs' Board of Directors have approved certain agreements with the System and unrelated third parties whereby an allocation of surplus capital was committed to fund projects designed to further the HMOs' mission of providing quality health care to the underserved population of southeast Texas. Funds transferred to the System under these agreements are reflected as contributions (distributions) in the statements of revenues, expenses and changes in net position. The System pays a portion of the premiums for enrollees to Community Health Choice, Inc. for insurance coverage under the insurance plans that are offered as part of the HMO’s mission. Premiums paid on behalf of enrollees were $22 million and $13 million for fiscal years 2020 and 2019, respectively, which is included as expense and revenue in the System/Community Health Choice, Inc. financial statements.

The System supports the Foundation with payments for goods and services of approximately $574 thousand and $565 thousand in fiscal years 2020 and 2019, respectively, which are recognized in the Foundation financial data as in-kind contributions and expenses. The Foundation provided support to the System for projects and grants of $2 million and $1 million in 2020 and 2019, respectively. In addition, the Foundation distributed to the System contributions totaling $500 thousand and $1 million in 2020 and 2019, respectively, from its multi-year Capital Campaign funds.

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents include cash and investments that are highly liquid with maturities of less than three months when purchased, and excludes cash and cash equivalents that are restricted or limited as to use. Short-term investments are investments with maturities in excess of three months, but less than a year, when purchased.

The System's and HMO’s cash, cash equivalents and short-term investments are invested in fully collateralized time deposits, commercial paper, money market mutual funds and government securities as authorized by Chapter 281 of the *Texas Health and Safety Codes* and Chapter 116 of the *Texas Local Government Code*, except as disclosed in *Note 6*. Such total collateralization and insurance coverage is required by the Board of Trustees of the System. The Foundation's investments, however, are not subject to these laws.

Investments are reported at fair value, with realized and unrealized gains and losses included in investment income in the statements of revenues, expenses and changes in net position.

Foundation Net Position

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net position. Gifts received with a donor stipulation that limits their use are reported as restricted net position. When a donor stipulated time restriction ends or purpose restriction is accomplished, restricted net position is reclassified to unrestricted net position. The majority of pledges recorded are externally imposed to the System's expansion projects. Pledges are included in other assets in the statements of net position.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out method, or market and consist principally of pharmaceuticals.

Capital Assets

Property, plant and equipment are carried at cost or acquisition value at the time of donation and include expenditures for new facilities and equipment and expenditures that substantially increase the useful life of existing capital assets. Ordinary maintenance and repairs are charged to expense when incurred. Capitalization is limited to assets with a cost of $5,000 or greater.

Disposals are removed at carrying cost less accumulated depreciation, with any resulting gain or loss included in other nonoperating revenue and expenses. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings are up to 40 years and for equipment are 2 to 25 years. Equipment under capital leases is amortized on the straight-line method over the lesser of the useful life of the equipment or the lease term. Such amortization is included in depreciation and amortization in the accompanying statements of revenues, expenses and changes in net position.

Compensated Absences

The System maintains a paid time-off plan. Under the paid time-off plan, the cost of all compensated absences is accrued at the time the benefits are earned. At the option of the employee, unused benefits may be liquidated at 50.0 percent or at the time of termination, unused benefits are payable at 75.0 percent. Changes in the System's liability for compensated absences in fiscal years 2020 and 2019 are as follows (in thousands).

Fiscal	Beginning of Year Liability	Current Year Claims and Change in Estimates	Claim Payments	End of Year Liability
2020	$ 35,249	$ 78,820	$ 67,167	$ 46,902
2019	36,753	65,316	66,820	35,249

Classification of Revenues and Expenses

Operating revenues include those generated from direct patient care and related support services. Nonoperating revenues consist of those revenues that are related to financing and investing types of activities and result from nonexchange transactions or investment income. Operating expenses include those related to direct patient care and related support services. Nonoperating expenses include interest expense and other expenses that are not considered operating.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported as the estimated net realized amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors. In recognizing net patient service revenue, estimates are used in recording allowances for contractual adjustments and uncollectible accounts. Allowances for uncollectible accounts are estimated using historical experience, current trend information, aged account balances and a collectability analysis. The System's financial assistance program for uninsured patients classified as self-pay determines expected payments based on the Medicare allowable reimbursement. Charges in excess of the expected payment are reflected as an administrative uninsured discount. The allowance for uncollectible accounts was estimated at $52 million and $65 million as of February 29, 2020 and February 28, 2019, respectively. The System provides services under contract to patients covered under the Medicare and Medicaid programs. Net revenues from these programs are included in patient service revenue at estimated reimbursement based on customary billing charges, predetermined rates of reimbursement, plus certain adjustments. The amounts due to or from these programs are subject to final review and settlement by the program administrative contractor. Retroactive adjustments under third-party reimbursement agreements are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, it is reasonably possible that these estimates could differ from actual settlements and thus change in the near term by material amounts.

Charity Care Policy

The System accepts all Harris County residents as patients regardless of their ability to pay. Harris County residents may qualify for partial financial assistance, on a sliding scale. The extent to which a resident will be financially responsible is determined based upon pre-established financial criteria, which utilize family income and size as it relates to the federal poverty guidelines set by the U.S. Department of Health and Human Services. Charity services are defined as those services for which no payment is anticipated. These amounts are not reported as revenue. The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under the System's Financial Assistance program. The following information measures the level of charity care provided during the years ended February 29, 2020 and February 28, 2019 (in thousands):

	2020	2019
Charges forgone, based on established rates	$ 1,240,562	$ 1,239,968
Cost of foregone charges, estimated	720,390	650,040

Premium Revenue

Premium revenue is recognized as revenue by the HMOs during the coverage period of the subscriber agreement. For the primary Medicaid business, notification is received throughout the year of any new, removed or revised members and the date of eligibility for coverage. The date of notification may be subsequent to the date of eligibility. The HMOs believe premium revenue has been appropriately recognized for the years ended December 31, 2019 and 2018.

Medical Claims Expense

The HMOs arrange for comprehensive health care services to its members primarily through fee-for-service arrangements. The HMOs compensate hospitals on either a discounted fee for service or per diem basis and compensates physicians and other providers primarily on a discounted fee for service basis.

Medical claims expense reserves represent the estimated ultimate net cost of all reported and unreported losses incurred through the end of December and are presented on a discounted basis. The reserves for unpaid medical claims expenses are actuarially estimated based on claims experience and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserves for medical claims expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Contracts are evaluated to determine if it is probable that a loss will be incurred and a premium deficiency reserve is recognized when it is probable that expected future claims, including maintenance costs, will exceed existing reserves plus anticipated future premiums and reinsurance recoveries, without consideration of anticipated investment income. For purposes of determining premium deficiency reserves, contracts are grouped in a manner consistent with the method of acquiring, servicing and measuring the profitability of such contracts. As of December 31, 2019, the HMOs recognized a $1 million premium deficiency reserve for the Health Insurance Marketplace business. As of December 31, 2018, the HMOs recognized no premium deficiency reserve for the Health Insurance Marketplace business.

Changes in the HMO’s aggregate liability for medical claims in fiscal years 2020 and 2019 are as follows (in thousands):

Fiscal Year	Beginning of Fiscal Liability	Medical Claims and Change in Estimates	Claim Payments	End of Fiscal Year Liability
2020	$ 149,949	$ 1,536,232	$ 1,519,480	$ 166,701
2019	158,903	1,498,768	1,507,722	149,949

In fiscal year 2020, the HMOs in aggregate paid $1,377 million in claims related to the current fiscal year and $142 million in claims related to the prior fiscal year. In fiscal year 2019, the HMOs paid $1,422 million in claims related to the current fiscal year and $86 million in claims related to the prior fiscal year.

The HMOs are a party to a reinsurance agreement to limit its losses on individual claims. Under the terms of the agreement, the reinsurer reimburses the HMOs approximately 90.0 percent, subject to certain limitations as specified in the contract, of the cost of each member's annual inpatient hospital services. For the Medicaid and Children’s Health Insurance Program (CHIP) business, the recovery is based on costs in excess of a $1 million deductible, up to a limitation of $5 million per member per agreement period. The HMOs also carry coverage for the health insurance marketplace business for which the reinsurer reimburses approximately 90.0 percent of each member's annual inpatient hospital services in excess of a $750 thousand deductible, up to a limitation of $5 million per member per agreement period.

Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (ACA)

The HMOs participate in the federally facilitated health insurance exchange in 10 southeast Texas counties. The exchange was created pursuant to the ACA under regulations established by the U.S. Department of Health and Human Services (HHS). Under these rules, HHS pays the HMO a portion of the policy premium, in the form of Advanced Premium Tax Credit (APTC), and part of the health care costs, in the form of Cost Sharing Reduction (CSR), for low income individual exchange members. HHS also administers certain risk management programs as detailed below.

The HMOs recognize premiums received from its exchange members and APTC received from HHS as premium revenue when earned and CSR offsets health care costs when incurred. For 2020, the HMOs recognized $427 million and $0 of APTC and CSR, respectively. For 2019, the HMOs recognized $494 million and $0 of APTC and CSR, respectively.

The ACA established a permanent risk adjustment program which adjusts the premiums that commercial, individual and small group health insurance issuers receive based on the demographic factors and health status of each member as derived from current year medical diagnosis as reported throughout the year. This program transfers funds from lower risk plans to higher risk plans with similar plans in the same state. The risk adjustment program is applicable to commercial, individual and small group health plans (except certain exempt and grandfathered plans) operating both inside and outside of the exchange. A risk score is determined for the entire subject population for each market in each state. Plans with an average risk score below the state average will pay into a pool and health insurance issuers with an average risk score that is greater than the state average risk score will receive money from that pool. The HMOs issues individual plans and is therefore subject to the risk adjustment. At December 31, 2019 and 2018 the HMOs recorded a risk adjustment receivable (payable) of $75 million and ($14) million, respectively.

Ad Valorem Tax Revenues – Net

Ad valorem tax revenues are recorded in the year for which the taxes are levied, net of provisions for uncollectible amounts, collection expenses and appraisal fees. Harris County Commissioners' Court levies a tax for the System as provided under state law. The taxes are collected by the Harris County Tax Assessor – Collector and are remitted to the System as received. On January 1, at the time of assessment, an enforceable lien is attached to the property for property taxes. Taxes are levied and become collectible from October 1 to January 31 of the succeeding year. Subsequent adjustments to the tax rolls, made by the County Assessor, are included in revenues in the period such adjustments are made by the County Assessor. Harris County also enters into property tax abatement agreements with local businesses under the state Property Redevelopment and *Tax Abatement Act*, Chapter 312, as well as its own guidelines and criteria, which is required under the Act.

Tobacco Settlement Revenues

In the fiscal years ended February 29, 2020 and February 28, 2019, the System received a portion of the funds from the settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care costs. Under the program guidelines, the System is free to use the funds in either the immediate or future periods without restriction. The System recognizes all funds received from the settlement as nonoperating revenue in the period funds are allocated.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefits payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions

The System has a single-employer defined benefit other postemployment benefit (OPEB) plan. For purposes of measuring the net OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by the OPEB plan. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 reported period. Actual results could differ from those estimates.

Newly Adopted Accounting Pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations, a legally enforceable liability associated with the retirement of a tangible capital asset.

GASB Statement No. 84, *Fiduciary Activities.* This statement 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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement requires disclosure of additional essential information related to debt that is not consistently provided. The statement clarifies which liabilities should be included when disclosing information related to debt and also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

GASB Statement No. 90 – *Majority Equity Interests*, an amendment of GASB Statements No. 14 and No. 61. This statement defines an equity interest in a legally separate organization and establishes how majority equity interests should be reported in the financial statements. A majority equity interest that meets the definition of an investment under GASB Statement No. 72, *Fair Value Measurement and Application*, should be reported as an investment and measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

Adoption of these standards had no effect on the System’s financial statements.

Pending Adoption of Recent Accounting Pronouncements

GASB Statement No. 87, *Leases*. This statement requires recognition of certain lease assets and liabilities for leases 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this statement are effective for reporting periods beginning after June 15, 2021, with earlier application encouraged.

GASB Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

Revisions

Certain immaterial revisions have been made to the 2019 financial statements to correct an error in the statement of cash flows related to the adjustments to reconcile the operating loss to net cash used in operating activities. This revision increased the previously reported increase in net pension liability by $79 million. Corresponding changes were also revised in the 2019 statement of cash flows for the changes in deferred inflows and outflows of resources related to pensions which resulted in no change to cash flows from operations. The 2019 financial statements also include a revision to decrease the previously reported net investment in capital assets by $16 million and increase unrestricted net position by the same amount. These revisions did not have a significant impact on the financial statement line items impacted.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation. The reclassifications had no effect on the changes in financial position.

Note 3: Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. The amounts by which the established billing rates exceed the amounts recoverable from these programs are written off and accounted for as contractual allowances. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care services and defined capital costs related to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical diagnostic and other factors. Medicare outpatient services are reimbursed on fee schedules and on a prospective basis through ambulatory payment classifications, which are based on clinical resources used in performing the procedures. The System's Medicare cost reports have been audited by the Medicare administrative contractor through February 28, 2013. The System's February 28, 2014 and February 28, 2015 Medicare cost reports were audited by the Medicare administrative contractor subsequent to year end.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge similar to those of the Medicare inpatient program. Medicaid outpatient services are paid by fee schedules for specific services, including outpatient surgery, imaging and laboratory services. Other outpatient services are reimbursed on reasonable cost, based on a percentage from the System's most recent Medicaid cost report tentative settlement as of March 1, 2013. The System's Medicaid cost reports have been settled by the Medicaid administrative contractor through February 29, 2012.

Cash received from the Medicare program accounted for approximately 54.3 percent and 41.6 percent of the System's total cash collections for net patient service revenue for years ended February 29, 2020 and February 28, 2019, respectively. Cash received from the Medicaid program (including managed Medicaid) accounted for approximately 26.2 percent and 35.9 percent of the System's total cash collections for net patient service revenue for the years ended February 29, 2020 and February 28, 2019, respectively.

Compliance with laws and regulations governing the Medicare and Medicaid programs can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

Note 4: Medicaid Supplemental Programs

The Disproportionate Share III (DSH) program was created in fiscal 1992 by the state of Texas to access additional federal matching funds. These funds are distributed to selected hospitals that provide services to low-income and uninsured patients.

The Upper Payment Limit (UPL) program was created in May 2002 with an effective date of July 2001. The UPL program used federal matching funds to raise state Medicaid reimbursement rates to 100.0 percent of equivalent Medicare rates for certain public hospital systems. In December 2011, Texas received federal approval to redirect the funding it would have received under the UPL program. The 1115 Waiver allows the state to expand Medicaid managed care, improve Medicaid services and reward performance. Federal funding that would have been received by hospitals if managed care was not expanded is to be preserved. The UPL program was replaced with two new pools of funding, the uncompensated care (UC) pool and the delivery system reform incentive payment (DSRIP) pool. The UC pool directs more funding to hospitals that serve large numbers of uninsured patients and the DSRIP pool provides incentive payments for health care providers based on improvements in quality of care. The 1115 Waiver has been renewed through September 2022. Among other changes, the renewal plan requires a change in the methodology used to measure and allocate UC pool funds and a phase out of the DSRIP program during the renewal period. The System also participates in three other Medical Supplemental Payment Programs, the Network Access Improvement Program (NAIP), the Uniform Hospital Rate Increase Program (UHRIP) and the new Graduate Medical Education (GME) program.

The System recognizes all funds received under the DSH, UC, DSRIP, NAIP, GME and UHRIP programs as operating revenues in the period applicable to the funds. Any amounts related to that year that are not received as of fiscal year-end are recorded as receivables and reflected in other current assets in the accompanying statements of net position. These receivables can be subject to adjustments that are reflected in the period they become known. The System recorded an unfavorable adjustment of $6 million and $1 million in fiscal years 2020 and 2019, respectively, for prior years' programs. The System's financial statements reflect current liabilities for program revenue received but unearned of $1 million and $2 million at February 29, 2020 and February 28, 2019, respectively, and receivables of $44 million and $35 million at February 29, 2020 and February 28, 2019, respectively, related to the Medicaid Supplemental Programs. The rate increase for the System associated with UHRIP for the period March 1, 2018 through August 31, 2018, was 49.0 percent. The rate increase for the System for the period from September 1, 2018 through February 28, 2019 was 46.0 percent. The rate increase for the System associated with UHRIP for the period March 1, 2019 through August 31, 2019, was 43.0 percent. The rate increase for the System for the period from September 1, 2019 through February 29, 2020 was 70.0 percent.

During fiscal 2020, the Board of Trustees approved the System's participation in a Local Provider Participation Fund (LPPF) in Harris County. The System acts as the administrator of the LPPF by assessment and collection of mandatory payments from hospitals in Harris County. These payments are to be used to fund intergovernmental transfers representing the state's share of supplemental Medicaid funding programs. As the System acts as a conduit for these funds, the receipts and intergovernmental transfers are not recognized as revenue and expense in the statements of revenues, expenses and changes in net position. As of February 29, 2020, the System held $36 million in LPPF funds, which is reported as restricted cash and a related liability in the statements of net position.

Note 5: Assets Limited as to Use or Restricted

Assets limited as to use or restricted represent those assets whose use has been legally restricted related to the 2010 and 2016 refunding and revenue bond issues (50.0 percent of the greatest debt service requirement scheduled to occur); unspent bond proceeds; funds restricted by donors; or funds designated by the board for other uses. Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at the time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are recorded at fair value. The fair values of securities are based on appropriate valuation methodologies by third parties, quoted market prices and information available to management as of February 29, 2020 and February 28, 2019.

The components of assets limited as to use or restricted at fair value at February 29, 2020 and February 28, 2019, are as follows (in thousands):

	2020					
Description of Assets	Total	Restricted Debt Service	BT Level 1 Trauma	Cash on Deposit with Harris County Project Management	Restricted Cash Equivalents LPPF	Other
Money market government funds	$ 44,239	$ 3,319	$ 4,905	$ -	$ 35,894	$ 121
U.S. Treasury note	29,142	29,142	-	-	-	-
Commercial paper	3,793	-	2,990	-	-	803
Other	21,736	-	-	21,736	-	-
	98,910	32,461	7,895	21,736	35,894	924
Less funds required for current liabilities	(42,728)	(6,834)	-	-	(35,894)	-
	$ 56,182	$ 25,627	$ 7,895	$ 21,736	$ -	$ 924

	2019					
Description of Assets	Total	Restricted Debt Service	BT Level 1 Trauma	Cash on Deposit with Harris County Project Management	Restricted Cash Equivalents LPPF	Other
Money market government funds	$ 50,292	$ 30,644	$ 19,382	$ -	$ -	$ 266
Commercial paper	11,590	1,049	9,967	-	-	574
Other	39,887	-	-	39,887	-	-
	101,769	31,693	29,349	39,887	-	840
Less funds required for current liabilities	(6,595)	(6,595)	-	-	-	-
	$ 95,174	$ 25,098	$ 29,349	$ 39,887	$ -	$ 840

The System has contracted with Harris County for the management of certain infrastructure projects. Under the agreement, the System deposits with the County estimated funds required for the completion of each project. The funds are held by the County for those project expenditures with any remaining amounts refunded upon project completion.

Foundation – Assets limited as to use of $53 million and $45 million at February 29, 2020 and February 28, 2019, respectively, are restricted subject to donor-imposed stipulations that will be met by actions of the Foundation or the passage of time.

HMOs – Assets limited as to use aggregating $4 million at February 29, 2020 and February 28, 2019, are restricted as to use and are pledged to satisfy insolvency and other reserves, as required by the Texas Department of Insurance.

Note 6: Investment Risk

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, requires disclosures related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk associated with interest-bearing investments.

Credit Risk and Concentration of Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

The System, the HMOs and the Foundation each have formal investment policies adopted by their governing boards, which limit investment in securities based on an NRSRO credit rating. The System's investments are also subject to the *Public Funds Investment Act* (the Act), Texas Administrative Code Section 2256, and the investments of the HMOs are also subject to regulations enumerated in Title 28, Chapter 11 of the Texas Administrative Code and Chapter 20A of the Texas Insurance Code. The Foundation's investments are not subject to these laws.

The System's investment policy is to be reviewed and approved annually by the Board of Trustees and the Commissioners' Court. The investment policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

The System's investment policy establishes minimum acceptable credit ratings for certain investment instruments. Securities of states, agencies, counties, cities and other political subdivisions must be rated as to investment quality by a nationally recognized investment-rating firm as A or its equivalent. Money market mutual funds and public funds investment pools must be rated AAA or its equivalent.

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The System mitigates these risks by emphasizing the importance of a diversified portfolio. All funds must be sufficiently diversified to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer or a specific class of securities. In particular, no more than 25.0 percent of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer. Concentration by issuer for other investment instruments is not specifically addressed in the investment policy. However, the policy does specify that acceptable investment instruments must have high-quality credit ratings.

GASB Statement No. 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk.

The table below indicates the fair value and maturity amount of the System's cash equivalents, assets limited as to use and investments as of February 29, 2020 and February 28, 2019, summarized by security type, as well as the percentage of total portfolio, the credit rating of the investment, and the modified duration in years for each summarized security type (in thousands).

	2020				
Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Rating Moody's
Commercial paper:					
Toyota Motor Credit Corp (TMCC)	$ 50,703	5.16 %	$ 50,800	0.493	A-1+
Natixis (NATX)	265,904	27.06	267,000	0.430	A-1
BNP Paribas	199,026	20.25	200,000	0.474	A-1
Exxon Mobile Corp	32,988	3.36	33,000	0.142	A-1+
Mitsubishi UFJ Financial Group	89,191	9.08	90,000	0.621	A-1
U.S. Treasury notes	29,025	2.95	29,000	0.975	Aaa/AA+
Money market mutual funds	315,902	32.14	315,902	0.003	AAA/Aaa
Total cash equivalents, assets limited as to use and investments	$ 982,739	100.00 %	$ 985,702	0.448	

	2019				
Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Rating Moody's
Commercial paper:					
Toyota Motor Credit Corp (TMCC)	$ 309,672	38.57 %	$ 313,533	0.455	A-1+
Exxon Mobile Corp	74,730	9.31	75,000	0.144	A-1+
Mitsubishi UFJ Financial Group	198,841	24.77	200,000	0.227	A-1
Money market mutual funds	219,627	27.35	219,627	0.003	AAA/Aaa
Total cash equivalents, assets limited as to use and investments	$ 802,870	100.00 %	$ 808,160	0.247	

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Chapter 2257 of the Texas Government Code is known as the *Public Funds Collateral Act*. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Deposit Insurance Corporation (FDIC) insurance is available for funds deposited at any one financial institution up to a maximum of $250 thousand each for demand deposits, time and savings deposits and deposits pursuant to indenture.

The *Public Funds Collateral Act* requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available. At February 29, 2020 and February 28, 2019, the balance per the bank of Community Health Choice, Inc. demand and time deposits was $7 million and $6 million, respectively, of which $7 million and $6 million, respectively, was uninsured and uncollateralized.

The System's deposits are not exposed to custodial credit risk since all deposits are either covered by FDIC insurance or collateralized with securities held by the System or its agent in the System's name, in accordance with the *Public Funds Collateral Act*.

Interest Rate Risk – All investments carry the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the System manages its exposure to interest rate risk is by purchasing a combination of shorter and longer-term investments and by matching cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

According to the System's investment policy, no more than 50.0 percent of the portfolio, excluding those investments held for future capital expenditures, debt service payments, bond fund reserve accounts, and capitalized interest funds, may be invested beyond 36 months. Additionally, at least 15.0 percent of the portfolio, with the previous exceptions, is invested in overnight instruments or in marketable securities that can be sold to raise cash within one day's notice. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed three years. As of February 29, 2020 and February 28, 2019, the System was in compliance with these guidelines.

Foreign Currency Risk – Foreign currency risk is the risk that fluctuations in the exchange rate will adversely affect the value of investments denominated in a currency other than the U.S. dollar. The System's investment policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the System is not exposed to foreign currency risk.

The table below indicates the fair value and maturity amount of the cash equivalents, assets limited as to use and investments of Community Health Choice, Inc. as of December 31, 2019 and 2018 summarized by security type. Also demonstrated are the percentage of total portfolio and the modified duration in years for each summarized security type (in thousands).

	2019				
Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Rating Moody's
Municipal bonds	$ 25,341	33.13 %	$ 25,203	0.153	AAA/AA/SP-1+
Certificates of deposit	3,425	4.48	3,425	0.419	AAA
Money market mutual funds	47,713	62.39	47,713	0.003	AAA
	$ 76,479	100.00 %	$ 76,341	0.192	

	2018				
Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Rating Moody's
Municipal bonds	$ 31,920	23.00 %	$ 31,765	0.317	AAA/AA+/AA
Certificates of deposit	3,325	2.39	3,325	0.429	AAA
Money market mutual funds	103,549	74.61	103,549	0.045	AAA
	$ 138,794	100.00 %	$ 138,639	0.065	

The table below indicates the fair value and maturity amount of the cash equivalents, assets limited as to use and investments of Community Health Choice Texas, Inc. as of December 31, 2019 and 2018, summarized by security type. Also demonstrated are the percentage of total portfolio and the modified duration in years for each summarized security type (in thousands).

	2019				
Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Rating Moody's
Municipal bonds	$ 35,336	20.27 %	$ 35,040	0.345	AAA/AA+/AA/Aa1/Aa2/MIG1
Certificates of deposit	600	0.34	600	0.185	AAA
Money market mutual funds	138,389	79.39	138,389	0.003	AAA
	$ 174,325	100.00 %	$ 174,029	0.178	

	2018				
Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Rating Moody's
Municipal bonds	$ 30,448	18.83 %	$ 30,455	0.523	AAA/AA+/AA
Certificates of deposit	600	0.37	600	0.185	AAA
Money market mutual funds	130,642	80.80	130,642	0.003	AAA
	$ 161,690	100.00 %	$ 161,697	0.379	

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets, Level 2 are significant other observable inputs and Level 3 are significant unobservable inputs.

The following is a summary of the hierarchy of the fair value of cash equivalents, assets limited as to use, investments, and derivative instrument *(Note 8)* of the System as of February 29, 2020 and February 28, 2019 (in thousands).

	2020 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Commercial paper	$ -	$ 637,812	$ -	$ 637,812
U.S. Treasury notes	29,025	-	-	29,025
Money market mutual funds	315,902	-	-	315,902
Total cash equivalents, assets limited as to use and investments by fair value	$ 344,927	$ 637,812	$ -	$ 982,739
Derivative financial instrument	$ -	$ 19,115	$ -	$ 19,115

	2019 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Commercial paper	$ -	$ 583,243	$ -	$ 583,243
Money market mutual funds	219,627	-	-	219,627
Total cash equivalents, assets limited as to use and investments by fair value	$ 219,627	$ 583,243	$ -	$ 802,870
Derivative financial instrument	$ -	$ 7,918	$ -	$ 7,918

The following is a summary of the hierarchy of the fair value of investments and cash equivalents of Community Health Choice, Inc. as of December 31, 2019 and 2018 (in thousands):

	2019 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Municipal bonds	$ -	$ 25,341	$ -	$ 25,341
Money market mutual funds	47,713	-	-	47,713
Total investments and cash equivalents by fair value level	$ 47,713	$ 25,341	$ -	$ 73,054

	2018 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Municipal bonds	$ -	$ 31,920	$ -	$ 31,920
Money market mutual funds	103,549	-	-	103,549
Total investments and cash equivalents by fair value level	$ 103,549	$ 31,920	-	$ 135,469

The following is a summary of the hierarchy of the fair value of investments and cash equivalents of Community Health Choice Texas, Inc. as of December 31, 2019 and 2018 (in thousands):

	2019 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Municipal bonds	$ -	$ 35,336	$ -	$ 35,336
Money market mutual funds	138,389	-	-	138,389
Total investments and cash equivalents by fair value level	$ 138,389	$ 35,336	-	$ 173,725

	2018 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Municipal bonds	$ -	$ 30,448	$ -	$ 30,448
Money market mutual funds	130,642	-	-	130,642
Total investments and cash equivalents by fair value level	$ 130,642	$ 30,448	-	$ 161,090

Note 7: Capital Assets

The System's investment in capital assets as of February 29, 2020 and February 28, 2019, consists of the following (in thousands):

	2020			
	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Land and improvements	$ 45,435	$ 804	$ (59)	$ 46,180
Buildings and fixed equipment	659,640	59,222	(12,779)	706,083
Major movable equipment	387,639	44,580	(21,742)	410,477
Total historical cost	1,092,714	104,606	(34,580)	1,162,740
Less accumulated depreciation:				
Land and improvements	(13,296)	(912)	59	(14,149)
Buildings and fixed equipment	(378,286)	(25,191)	11,658	(391,819)
Major moveable equipment	(296,904)	(28,547)	21,207	(304,244)
Total accumulated depreciation	(688,486)	(54,650)	32,924	(710,212)
Construction in progress	62,068	(22,146)	-	39,922
Capital assets - net	$ 466,296	$ 27,810	$ (1,656)	$ 492,450

	2019			
	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Land and improvements	$ 43,096	$ 2,347	$ (8)	$ 45,435
Buildings and fixed equipment	641,490	20,789	(2,639)	659,640
Major movable equipment	365,114	32,919	(10,394)	387,639
Total historical cost	1,049,700	56,055	(13,041)	1,092,714
Less accumulated depreciation:				
Land and improvements	(12,426)	(877)	7	(13,296)
Buildings and fixed equipment	(355,463)	(25,150)	2,327	(378,286)
Major moveable equipment	(279,304)	(27,322)	9,722	(296,904)
Total accumulated depreciation	(647,193)	(53,349)	12,056	(688,486)
Construction in progress	33,459	28,609	-	62,068
Capital assets - net	$ 435,966	$ 31,315	$ (985)	$ 466,296

Note 8: Long-Term Debt

Long-term debt of the System consists of various issues of Revenue Bonds and Combination Tax and Revenue Certificates of Obligation (Certificates). Revenue Bonds are payable from the pledged revenue generated by the System. Combination Tax and Revenue Certificates of Obligation are payable from the levy and collection of an ad valorem tax, levied on taxable property within the System. Although taxes are levied and collected by Harris County for the System, the Certificates are direct obligations of the System and the holders are not entitled to demand payment from any tax revenue or other revenues of Harris County.

Revenue Bonds

On October 3, 2007, the System issued two Series of Harris County Hospital District Senior Lien Refunding Revenue Bonds (the Bonds). The Series 2007A Bonds, in the amount of $199 million, were sold to provide funding for expansion and renovation projects, to refund the System's outstanding commercial paper, to fund the Debt Service Reserve Fund, and to pay costs of issuance. The Series 2007B Bonds, in the amount of $103 million, were used to refund the Series 2000 revenue bonds and to pay costs of issuance. The Series 2007 Bonds were insured by municipal bond insurance policies and secured by a lien on the pledged revenue of the System and certain funds established pursuant to the bond order.

In October 2016, the System refunded and refinanced the Series 2007A Bonds by issuing the $160 million Series 2016 Senior Lien Refunding Revenue bonds at a premium of $15 million.

The proceeds of the Series 2016 Bonds and existing debt service and debt service reserve funds covered cost of issuance and defeased the Series 2007A bonds in the principal amount $178 million. An irrevocable deposit of sufficient funds with trustees was made to pay the principal and interest of the defeased bonds through maturity. In February 2017, the System paid the non-refunded principal balance due and related interest. The Series 2016 Bonds have a final maturity of February 15, 2042. The bonds were issued as serial bonds in the amount of $106 million maturing February 15, 2036, and $54 million in term bonds maturing February 15, 2042. The bonds maturing on or after February 15, 2027, are subject to optional redemption on or after February 15, 2026. The term bonds are additionally subject to mandatory sinking fund redemption. The refunding resulted in a net present value economic gain of $37 million.

The Series 2007B Bonds have a final maturity date of February 1, 2042, and were initially issued as 28-day taxable auction-rate paper, convertible to tax-exempt on August 16, 2010. In April 2008, these bonds were converted from auction-rate securities and reoffered as variable rate bonds bearing interest at a term rate during a term period. The 2007B Bonds Series were hedged with a forward starting swap effective upon the tax-exempt conversion of the bonds.

In August 2010, the System refunded and refinanced the Series 2007B Bonds by issuing Series 2010 Refunding and Revenue bonds in the amount of $104 million. The proceeds of the Series 2010 Bonds covered costs of issuance and defeased the Harris County Hospital District Senior Lien Refunding Revenue Bonds, Series 2007B, in the principal amount of $104 million through the irrevocable deposit of sufficient funds with trustees to pay the principal and interest of such bonds through maturity. Accordingly, these trusteed funds and the related defeased indebtedness are excluded from the balance sheet. The refunding resulted in a loss of $22 million, which includes $16 million deferred loss on refunding related to the interest rate swap, which has been deferred and is being amortized over the life of the Series 2007B Bond issue. The remaining loss on refunding of $5 million has been deferred and is being amortized to interest expense over the life of the Series 2010 bond issue. The primary components of this loss were the write-offs of unamortized deferred financing costs and bond premiums, the net deferred amount related to the hedging derivative instrument associated with the 2007B Bonds and the difference between amounts funded for the defeasance and the principal due on the 2007B Bonds. The financial statements reflect deferred outflows-unamortized debt refunding loss of $9 million and $10 million at February 29, 2020 and February 28, 2019, respectively. Principal amounts of total defeased indebtedness outstanding at February 29, 2020 and February 28, 2019, are $73 million and $80 million, respectively. The bonds are secured by an irrevocable letter of credit issued by JPMorgan Chase Bank.

The Series 2010 Refunding and Revenue bonds in the amount of $104,435 million are variable rate demand bonds maturing through February 15, 2042. The bonds are subject to purchase on the demand of the owner at a price equal to purchase price on any given business day upon irrevocable notice by electronic means to the System's tender agent and remarketing agent.

Under an irrevocable letter of credit issued by JPMorgan Chase Bank, only the tender agent is entitled to draw an amount sufficient to pay the principal amount of the bonds when due, or to pay the portion of the purchase price corresponding to the principal amount upon certain tenders. The letter of credit facility's expires on August 12, 2021. Unreimbursed advances will accrue interest at the higher of (i) the Prime Rate, (ii) one-month LIBOR plus 2.5 percent, or (iii) 7.5 percent per annum. The System is also required to pay to the JPMorgan Chase Bank an annual facility fee for the letter of credit of 0.8 percent per annum of the outstanding principal amount of the bonds. No amounts were outstanding on the letter of credit as of February 29, 2020 and February 28, 2019. In addition, the System is required to pay the remarketing agent an annual fee of $1.00 per $1,000 of principal amount of the bonds actually remarketed.

Compliance

The System is in compliance with its debt covenants at February 29, 2020 and February 28, 2019.

Interest Rate Swap

Related Bonds – On September 25, 2007, the System entered into an interest rate swap agreement in connection with its $104 million Harris County Hospital District Senior Lien Revenue and Refunding Bonds, Series 2007B with the settlement date on October 3, 2007. On August 12, 2010, when the System refunded and refinanced the Series 2007B Bonds by issuing Series 2010 Bonds, the interest rate swap was redesignated and associated with the new debt. The derivative contained an off-market element equal to the value of the swap associated with the Series 2007B Bonds on August 12, 2010. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, this off-market element is recorded as a borrowing payable and is amortized as an adjustment to interest expense over the life of the swap agreement.

Objective of the Swap – The intention of the swap was to effectively reduce the impact of the System's variable interest rate exposure on the Related Bonds to a synthetic fixed rate of 4.2 percent.

Swap terms:	
Trade date	September 12, 2007
Effective date	August 16, 2010
Termination date	February 15, 2042
Initial notional amount	103,500,000
District pays fixed	4.218%
Counterparty pays floating	SIFMA Municipal Swap Index
Payment dates	Monthly on the 15th calendar day of every month

As further defined in the confirmation to the swap agreement, the System is subject to an "Annual Counterparty Ceiling" which limits the maximum payment, inclusive of collateral, made by the System in any fiscal year to $40 million. Subject to cash settlement, the System has the right to terminate the agreement, in whole or in part, on the Effective Date, August 16, 2010, and on any Business Day (as observed by New York and London financial markets) thereafter.

The effectiveness of the interest rate swap has been measured using the regression analysis method. The System has concluded that the transactions are effective.

Fair Value – The redesignated swap that is associated with the new debt had a zero fair value at its inception date and a fair value of $(19) million and $(8) million at February 29, 2020 and February 28, 2019, respectively, and is reported as a derivative liability in the statements of net position. The fair value of the swap was determined by calculating the present value of the anticipated future cash flows for both the floating portion and the stated fixed rate portion using discount factors derived from the London Interbank Offered Rate (LIBOR) swap curve.

Interest Rate Risk – The System is exposed to interest rate risk in that as the variable rates on the swap agreements decrease the System's net payment in the swap agreement could increase.

Basis Risk – The System is exposed to basis risk when the variable interest rate paid to the holders of its variable rate demand obligations is not equivalent to the variable interest rate received from its counterparties on the related swap agreements. When exposed to basis risk, the net interest expense incurred on the combination of the swap agreement and the associated variable rate debt may be higher or lower than anticipated.

Collateral Posting Risk – The risk that the System will be required to secure its obligations under the swap agreement. Any securities posted as collateral would not be available for the System's expenditure or reserve needs, which could adversely impact credit ratings and overall liquidity and budgetary efforts. The System was not exposed to collateral posting risk as of and for the years ended February 29, 2020 and February 28, 2019.

Credit Risk – The risk of a change in the credit quality or credit rating of the System and/or its counterparty. As of February 29, 2020, the swap counterparty was rated BBB+ by Standard & Poor's, A3 by Moody's Investor Services, and BBB+ by Fitch. As of February 28, 2019, the swap counterparty was rated AA- by Standard & Poor's and Baa2 by Moody's Investor Services and BBB+ by Fitch. At February 29, 2020, the System was rated AA- by Standard & Poor's, Aa1 by Moody's Investor Services and AA by Fitch. At February 28, 2019, the System was rated AA- by Standard & Poor's, A2 by Moody's Investor Services and AA by Fitch.

Rollover Risk – The System is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated debt. As of February 29, 2020 and February 28, 2019, the System was not exposed to rollover risk.

Termination Risk – The System's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the System or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. If at the time of the termination a swap has a negative value, the System would be liable to the counterparty for a payment equal to the fair value of such swap. As of February 29, 2020 and February 28, 2019, termination of the original swap agreement would create a liability of $31 million and $19 million, respectively, and would result in a reversal of the derivative liability related to the redesignated swap, the borrowing payable amount and the unamortized loss on refunding. Any resulting net change would be recorded through nonoperating expenses.

Swap Payments – Using interest rates as of February 29, 2020, debt service requirements of the System's outstanding fixed and variable-rate debt and net swap payments on the variable-rate debt were as follows (in thousands). As rates vary, variable rate interest rate payments on the bonds and net swap payments will change.

2020

Years Ending February	Debt Principal	Debt Interest	Swaps, Net	Total
2021	$ 6,470	$ 9,796	$ (1,579)	$ 14,687
2022	6,765	9,491	(1,536)	14,720
2023	7,080	9,173	(1,489)	14,764
2024	7,400	8,840	(1,440)	14,800
2025	7,755	8,491	(1,386)	14,860
2026-2030	44,600	36,617	(6,090)	75,127
2031-2035	55,135	25,878	(4,445)	76,568
2036-2040	66,825	14,252	(2,442)	78,635
2041-2042	30,560	1,843	(315)	32,088
Total	$ 232,590	$ 124,381	$ (20,722)	$ 336,249

Hybrid Instrument Borrowings – The System's interest rate swap includes fixed rates that were off market at the execution of the interest rate swap. For financial reporting purposes, the interest rate swap is considered a hybrid instrument and is bifurcated between borrowings, with an aggregate original amount of $18 million reflecting the fair value of the instrument at its execution, and an interest rate swap with a fixed rate that was considered at the market at execution.

Activity for the hybrid instrument borrowings for the years ended February 29, 2020 and February 28, 2019, was as follows (in thousands).

	2020	2019
Beginning balance	$ 10,366	$ 11,139
Reductions	(754)	(773)
Ending balance	$ 9,612	$ 10,366

The following table sets forth as of February 29, 2020, the amortization of the hybrid instrument borrowings for the next five years and thereafter (in thousands).

Years ending February:	
2021	$ 733
2022	712
2023	690
2024	667
2025	644
2026-2030	2,825
2031-2035	2,062
2036-2040	1,133
2041-2042	146
Total	$ 9,612

Certificates of Obligation

In August 2016, the System issued Combination Tax and Revenue Certificates of Obligation, Series 2016 in the principal amount of $62,815 million. The funds are being used to expand the operative suites and supporting services at Ben Taub Hospital necessary to maintain the facility's Level 1 Trauma status. The bonds mature in February 2036. The System's financial statements reflect $55 million and $57 million in outstanding principal and $6 million in unamortized premium related to this debt at both February 29, 2020 and February 28, 2019. Principal and interest paid, as well as corresponding tax revenue applicable to debt service, was $5 million for both 2020 and 2019.

Annual debt service requirements to maturity as of February 29, 2020 are as follows (in thousands).

	Principal	Interest	Total
Years ending February:			
2021	$ 2,410	$ 2,280	$ 4,690
2022	2,530	2,159	4,689
2023	2,660	2,033	4,693
2024	2,790	1,900	4,690
2025	2,930	1,760	4,690
2026-2030	16,715	6,743	23,458
2031-2035	20,460	2,996	23,456
2036	4,510	180	4,690
Total	$ 55,005	$ 20,051	$ 75,056

Other Obligations

Other long-term obligations at February 29, 2020, are as follows (in thousands):

	Principal	Interest	Total
Years ending February:			
2021	$ 50	$ 3	$ 53
2022	38	1	39
2023	10	-	10
Total	$ 98	$ 4	$ 102

Note 9: Employee Benefit Plans

The System currently maintains two benefit plans allowing employees to plan and save for retirement: a defined contribution plan and a defined benefit plan. In October 2006, the Harris County Hospital District Board of Trustees amended the defined benefit pension plan to close enrollment. The amended plan offers employees hired prior to January 1, 2007, a choice to either (1) continue with their current pension plan or (2) elect to participate in the System's enhanced 401(k) retirement savings plan with a match, effective July 2007, of up to 5.0 percent of participant's compensation provided by the System. All new hires and rehires after December 31, 2006, are only eligible for the System's 401(k) retirement savings plan with a match of up to 5.0 percent. The change was designed to safeguard individuals approaching retirement, who had accumulated a large pension benefit in the current plan, while providing employees who planned to work many more years an option for better flexibility and portability in the System's enhanced 401(k) plan.

The System administers the Harris County Hospital District Pension Plan and the Harris County Hospital District 401(k) Plan. The System issues publicly available financial reports that include financial statements and required supplementary information. The financial reports may be obtained by writing to Harris Health System, Human Resources Department, 2525 Holly Hall, Houston, Texas 77054.

Defined Contribution Plan

The System has a defined contribution 401(k) plan (which qualifies as a tax-exempt employee benefit plan under Section 401(a) of the Internal Revenue Code) (401(k) Plan) open to all full-time and part-time employees of the System who meet the plan's requirements. It is a single-employer, self-administered, trusteed plan to which contributions are made by participants on a bi-weekly basis not to exceed the statutory maximum of $19 thousand and $18.5 thousand during calendar years 2019 and 2018, respectively, for all participants. Contributions to the plan cannot exceed the statutory maximum of $25 thousand and $24.5 thousand during calendar years 2019 and 2018, respectively, for participants age 50 and older. Effective July 2007, the System enhanced the 401(k) Plan with an employer match up to 5.0 percent of the participant's compensation for eligible employees, which is 100.0 percent vested with three or more years of service. The 401(k) Plan is a governmental plan and, as such, is specifically exempt from the reporting and disclosure requirements of Title I of the *Employee Retirement Income Security Act of 1974* (ERISA). Total participant contributions were $36 million and $31 million in fiscal years 2020 and 2019, respectively. Total System contributions were $15 million and $13 million in fiscal years 2020 and 2019, respectively.

Forfeitures under the 401(k) Plan for a plan year will be applied to reduce the System's obligation to make future matching contributions or to pay 401(k) Plan administrative expenses for the 401(k) Plan year. During each of the years ended December 31, 2019 and 2018, System contributions were reduced by approximately $1 million from forfeited non-vested accounts.

Pension Plan

The System has a noncontributory, defined benefit pension plan (the Plan). It is a single-employer, self-administered, trusteed plan in which a separate stand-alone financial report is issued. The Plan is administered by an Administrative Committee appointed by the Board of Trustees of the System, which is responsible for administering the Plan under the terms that are established. The Board of Trustees approves amendments to the Plan. State Street Bank & Trust Co. serves as the trustee and custodian for the Plan. As a unit of local government, the Plan is not covered by ERISA. The Plan is funded through actuarially determined contributions by the System. The entry age normal method is used to determine both the funding and the pension benefit obligation.

Each participant shall have a monthly benefit payable for life equal to the greater of (a) the number of years of service multiplied by 1.5 percent of average monthly compensation (average base compensation received in five highest consecutive calendar years out of the 10 complete calendar years prior to retirement) or (b) the accrued monthly retirement benefit determined as of January 1, 1989, plus the number of years of future service earned after January 1, 1989, multiplied by 1.5 percent of average monthly compensation, subject to a minimum equal to the benefit earned under the Plan prior to the adoption of the 6th Amendment as of September 30, 1991 (applies to non-highly compensated employees only). Monthly benefit payments are subject to a minimum based on the number of years of service multiplied by $6 and a maximum provision permitted to be paid under Section 415 of the Internal Revenue Code. Participants may also elect to receive their benefits in other optional forms approved by the Administrative Committee.

As of January 1, 2019 and 2018, the following employees were covered by the benefit terms:

	2019	2018
Inactive employee or beneficiaries currently receiving benefits	3,108	3,047
Inactive employees entitled to but not yet receiving benefits	1,349	1,344
Active employees	2,335	2,469
	6,792	6,860

The Harris Health System Board of Trustees establishes the contribution requirements of the System based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended February 29, 2020, the System contributed $34 million or 21.0 percent of covered payroll. For the year ended February 28, 2019, the System contributed $31 million or 18.0 percent of covered payroll.

Net Pension Liability

The System's net pension liability was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

Actuarial assumptions and methods used in the actuarial valuations are as follows.

	2019	2018
Valuation date	January 1, 2019	January 1, 2018
Measurement date	December 31, 2019	December 31, 2018
Actuarial cost method	Entry age normal	Entry age normal
Equivalent single amortization period	20 years, closed	20 years, closed
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Inflation	2.5%	2.5%
Investment rate of return (net of expenses)	6.75	7.0
Projected salary increases (ultimate rate):		
Initial rate	5.1	5.1
Ultimate rate	3.0	3.0
Mortality rates:		
Healthy	Pri-2012 Total Dataset Mortality Table, with generational mortality improvement projected after year 2012 using Scale MP-2019	RP-2014 Total Dataset Mortality Table, adjusted to 2006, with generational mortality improvement of Scale MP-2018
Disabled	Pri-2012 Disability Mortality Table, with generational mortality improvement projected after year 2012 using Scale MP-2019	RP-2014 Disability Mortality Table, adjusted to 2006, with generational mortality improvement projected after year 2006 using Scale MP-2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2019, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Real estate funds	5	7.06 %
Domestic equity-large cap	26	8.08
Domestic equity-small/mid cap	4	8.85
International equity	25	8.66
Fixed income	35	5.30
Hedge funds	5	7.45
	100 %	

The discount rate used to measure the total pension liability was 6.8 percent and 7.0 percent, net of expenses, as of December 31, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that System contributions would be made at rates equal to the actuarial determined contribution and the Plan's fiduciary net position is projected to cover benefit payments and administrative expenses.

Changes in the net pension liability are as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2018	$ 914,616	$ 634,716	$ 279,900
Changes for the year:			
Service cost	8,057	-	8,057
Interest	63,183	-	63,183
Differences between expected and actual experience	243	-	243
Changes of assumptions	23,528	-	23,528
Contributions - employer	-	33,621	(33,621)
Net investment income	-	119,362	(119,362)
Benefit payments	(47,367)	(47,367)	-
Administrative expense	-	(3,010)	3,010
Net changes	47,644	102,606	(54,962)
Balance at December 31, 2019	$ 962,260	$ 737,322	$ 224,938

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2017	$ 866,805	$ 686,312	$ 180,493
Changes for the year:			
Service cost	8,280	-	8,280
Interest	60,495	-	60,495
Differences between expected and actual experience	8,000	-	8,000
Changes of assumptions	15,748	-	15,748
Contributions - employer	-	30,984	(30,984)
Net investment income	-	(35,426)	35,426
Benefit payments	(44,712)	(44,712)	-
Administrative expense	-	(2,442)	2,442
Net changes	47,811	(51,596)	99,407
Balance at December 31, 2018	$ 914,616	$ 634,716	$ 279,900

Sensitivity of the net pension liability to changes in the discount rate – the following presents the net pension liability of the System, calculated using the discount rate of 6.8 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.8 percent) or 1.0 percentage point higher (8.8 percent) than the current rate (in thousands):

	1% Decrease 5.75%	Current Discount 6.75%	1% Increase 7.75%
System's net pension liability	$ 336,862	$ 224,938	$ 129,720

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the fiscal years ended February 29, 2020 and February 28, 2019, the System recognized pension expense of $52 million and $50 million, respectively. At February 29, 2020 and February 28, 2019, the System reported deferred outflows and deferred inflows of resources related to pension from the following sources (in thousands).

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 15,250	$ -
Differences between expected and actual experience	1,409	-
Net difference between projected and actual earnings on pension plan investments	-	30,310
Employer contributions remitted subsequent to the measurement date	9,000	-
Total	$ 25,659	$ 30,310

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 11,538	$ -
Differences between expected and actual experience	5,026	-
Net difference between projected and actual earnings on pension plan investments	43,558	-
Total	$ 60,122	$ -

At February 29, 2020, the System reported $9 million as deferred outflows of resources related to pensions resulting from System contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability at February 28, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended the last day of February:	
2021	$ 5,983
2022	(7,693)
2023	2,563
2024	(14,504)
	$ (13,651)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report.

Deferred Compensation

The System has a deferred compensation plan for the benefit of its eligible employees under Section 457 of the Internal Revenue Code of 1954. The assets in the Deferred Compensation Plan, which is not recorded in the accompanying statements of net position, are not subject to creditors. The Deferred Compensation Plan assets at February 29, 2020 and February 28, 2019, were approximately $118 million and $111 million, respectively.

Note 10: Other Postemployment Benefits (OPEB) Health Care Plan

Plan Description and Benefits Provided

The OPEB is sponsored by the System which provides certain health care benefits for retired employees. The System's employees may become eligible for those benefits upon completing 10 years of service. Retiree medical plan participants are provided benefits under the System's self-insured medical plan. The contribution requirements of plan members and the System are established by and may be amended by the System's Board of Trustees. The System funds these benefits on a pay-as-you-go basis, meaning that the System will pay benefits as they come due. For fiscal years 2020 and 2019, the System contributed $20 million and $21 million, respectively, to the Plan for current premiums and administrative costs. Plan members receiving benefits during both fiscal years 2020 and 2019 contributed $4 million, or approximately 21.0 percent and 20.0 percent, respectively, of the total premiums, through their required contribution. Plan members were required to contribute $96.75 and $75.83 per month for retiree-only coverage and $593.42 and $490.60 for retiree and spouse coverage in 2020 and 2019, respectively. The OPEB does not issue a separate report that includes financial statements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. At February 29, 2020 and February 28, 2019, the following employees were covered by the benefit terms.

	2020	2019
Inactive employee or beneficiaries currently receiving benefits	2,086	2,072
Active employees	7,858	7,698
	9,944	9,770

Total OPEB Liability

The System’s total OPEB liability of $486 million and $444 million and expense of $30 million and $24 million as of February 29, 2020 and February 28, 2019, respectively, and was determined by an actuarial valuation as of March 1, 2019 and 2018, respectively, and rolled forward to the measurement date.

The total OPEB liability in the actuarial valuation report was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement, unless otherwise specified:

	2020	2019
Salary increases	2.5%	2.5%
Discount rate	2.50%	3.21%
Health care cost trend rates	7.50% for 2020, decreasing to 6.75% over 3 years and following the Getzen model thereafter	6.75% for 2019, decreasing 0.25% per year to an ultimate rate of 4.75% for 2024 and later years

The discount rate used to measure the total OPEB liability was 2.5 percent which is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of February 29, 2020.

For 2020, mortality rates for healthy pre-commencement and post-participants were based on Pri-2012 bottom quartile mortality tables with generational projected after year 2006 using scale MP-2019. Rates for disabled participants were based on Pri-2012 mortality tables for disabled retirees, adjusted to 2006, with generational mortality improvement projected after year 2016 using Scale MP-2019.

For 2019, mortality rates for healthy pre-commencement and post-participants were based on RP-2014 bottom quartile mortality tables with generational projected after year 2006 using scale MP-2017. Rates for disabled participants were based on RP-2014 mortality tables for disabled retirees, adjusted to 2006, with generational mortality improvement projected after year 2016 using Scale MP-2017.

No formal actuarial experience studies have been performed.

Changes in the Total OPEB Liability (In Thousands)

	2020	2019
Total OPEB liability, beginning of year	$ 444,321	$ 440,928
Changes for the year:		
Service cost	9,424	9,746
Interest	15,195	13,820
Experience gains	(30,004)	-
Change of asssumptions	63,631	-
Benefit payments	(16,137)	(20,173)
Net changes	42,109	3,393
Total OPEB liability, end of year	$ 486,430	$ 444,321

Sensitivity of the System's Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

The total OPEB liability has been calculated using a discount rate of 2.5 percent. The following table presents the total OPEB liability of the System using a discount rate 1.0 percent higher and 1.0 percent lower than the current discount rate (in thousands):

	1% Decrease (1.50%)	Current Discount Rate (2.50%)	1% Increase (3.50%)
Total OPEB Liability	$ 566,882	$ 486,430	$ 422,389

The following presents the total System's OPEB liability, as well as what the System's OPEB liability would be if it were calculated using health care cost trend rates that are 1.0 percent higher and 1.0 percent lower than the current health care cost trend rates (in thousands):

	1% Decrease	Healthcare Cost Trend Rates (7.50% decreasing to 6.75%)	1% Increase
Total OPEB Liability	$ 415,959	$ 486,430	$ 575,890

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At February 28, 2019, the System did not report any deferred outflows of resources or deferred inflows of resources related to OPEB. At February 29, 2020, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 53,026	$ -
Differences between expected and actual experience	-	25,003
Total	$ 53,026	$ 25,003

Amounts reported as deferred outflows of resources and deferred inflows of resources at February 29, 2020, related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year ended the last day of February:		
2021	$	5,605
2022		5,605
2023		5,605
2024		5,604
2025		5,604
	$	28,023

Note 11: Concentrations of Credit Risk

The System provides services to its patients, most of whom are local residents and may be insured under third-party payor agreements, in accordance with its charity care policy (see *Note 2*). Patient service revenues (see *Note 3*) and the related accounts receivable are reflected in the System's financial statements net of charges for charity care provided. The mix of net receivables from self-pay patients and third-party payors at February 29, 2020 and February 28, 2019, is as follows:

	2020	2019
Medicaid	15%	17%
Medicare	49%	44%
Commercial	6%	14%
Self-pay patient	30%	25%
	100%	100%

Note 12: Commitments and Contingencies

At February 29, 2020 and February 28, 2019, the System was a defendant in certain pending civil litigation and has notice of certain claims that have been asserted against it. The System is covered under the *Texas Tort Claims Act* (the Act). Under the Act, any claims and recoveries from pending or possible litigation due to personal injuries are limited to $100 thousand per person and $300 thousand per single occurrence of bodily injury or death. Professional liability claims have been asserted by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are also other known and unknown incidents that have occurred through February 29, 2020, that may result in the assertion of additional claims.

The System covers its exposure for asserted and unasserted claims through a program of self-insurance and has accrued its best estimate of these contingent losses. In the opinion of the System's management, the outcomes of these actions will not have a material adverse effect on the financial statements of the System.

The System has self-insurance programs for the payment of hospital professional and general liability claims, workers' compensation, and employee health claims. Liabilities related to these programs are accrued utilizing actuarial analyses based on historical claims experience and are undiscounted. Changes in these self-insurance programs for the years ended February 29, 2020 and 2019, are as follows (in thousands).

	Beginning-of-year Liability	Current-year Claims and Changes In Estimates	Claim Payments	End-of-year Liability
Hospital professional and general liability:				
2020	$ 2,588	$ 2,181	$ 2,154	$ 2,615
2019	1,669	2,845	1,926	2,588
Workers' compensation liability:				
2020	$ 2,376	$ 842	$ 919	$ 2,299
2019	2,447	1,068	1,139	2,376
Employee healthcare benefits liability:				
2020	$ 9,779	$ 112,337	$ 111,748	$ 10,368
2019	10,091	105,681	105,993	9,779

The reserve for hospital professional and general liability, including malpractice, and the reserve for workers' compensation claims are included in accounts payable and accrued liabilities in the accompanying statements of net position. The reserve for incurred but unreported employee health claims is included in employee compensation and related benefit liabilities in the accompanying statements of net position.

The System is also exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. It is the System's policy to purchase commercial insurance for the risks of these losses. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

At February 29, 2020, the System had commitments outstanding in the amount of approximately $11 million related to improvements at existing facilities and $8 million related to information technology projects.

At February 28, 2019, the System had commitments outstanding in the amount of approximately $18 million related to improvements at existing facilities and $8 million related to information technology projects.

The System had rental expenses related to its operating leases of approximately $13 million and $12 million during the years ended February 29, 2020 and February 28, 2019, respectively.

The System receives financial awards from federal and state agencies in the form of grants. Expenditures of funds under those programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the System. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition or operations of the System.

Note 13: Harris Collaborative Program

The Harris Collaborative Program is a collaborative established to improve the level of health care provided to the indigent population of Harris County by strategically allocating the available community health care resources and the burden of providing services. This collaborative wound down during the year ended February 29, 2020. Prior to dissolving, the parties to the collaborative included Harris Health System and the Affiliated Hospitals – Gulf Coast Division Inc., Memorial Hermann Hospital System, the Methodist Hospital System, Texas Children's Hospital, Tomball Regional Medical Center, Park Plaza Hospital, Houston Northwest Medical Center, Cypress Fairbanks Medical Center, Pearland Medical Center and St. Luke's Episcopal Health System. An affiliation agreement among the parties allowed the parties to improve access to health care for indigent persons residing in the Houston community through participation in one of the state's Medicaid supplemental payment programs for privately owned safety-net hospitals. The System provided funding for the nonfederal share of the Medicaid Supplemental Payment Program by using ad valorem tax revenues.

As part of the Harris collaboration, the Affiliated Hospitals formed a Certified Non-Profit Health Organization, Harris County Clinical Services Inc. (HCCS), to provide physician services to the indigent in the Harris County community. HCCS has an agreement with Affiliated Medical Services (AMS), a contracting entity for Baylor College of Medicine (Baylor) and the University of Texas Health Science Center (UT), which provides for Baylor and UT to supervise and direct services of patients of the System. With the creation of the collaborative, the agreement between AMS and HCCS was created in order to provide the physician services to indigent patients who seek treatment. In addition, HCCS also entered into agreements with other health care service providers to extend services available. Through its agreements with AMS and other providers, HCCS provided approximately $147 million and $243 million of physician and other clinical services annually to the indigent in the Harris County community during the year ended February 29, 2020 and February 28, 2019, respectively. Under a management agreement between HCCS and the System, the System managed the services provided by AMS and provides facilities for indigent patients to receive services.

During the fiscal years ended February 29, 2020 and February 28, 2019, the System utilized $62 million and $223 million of tax revenues, respectively, as the nonfederal share of the Harris Collaborative program. The System recorded expenses of $62 million and $204 million in 2020 and 2019, respectively, under the Harris Collaborative program and provider affiliation agreements. These expenses are reflected as physician services in the statements of revenues, expenses and changes in net position.

Note 14: Subsequent Events

Certificates of Obligation, Series 2020

Subsequent to year-end, the System issued the combination tax and revenue Certificates of Obligation, Series 2020 (the 2020 Certificates) in the amount of $31 million, dated April 7, 2020. The 2020 Certificates mature in various amounts annually starting February 15, 2021 through February 15, 2030, with a stated coupon rate of 5.0%. The 2020 Certificates are collateralized by a levy of ad valorem tax revenue and lien on and pledge of surplus revenues. Proceeds from the 2020 Certificates will primarily be used to fund the construction and equipping of certain facilities at Ben Taub Hospital and the purchase and installation of certain medical equipment in Harris County's jail facilities as well as the purchase and installation of an upgraded electronic medical record system, among other facility improvements.

Infectious Disease Outbreak – COVID-19

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES ACT). The System received grants totaling approximately $65 million in April and June 2020 pursuant to the CARES Act provider relief fund provisions. The System anticipates using all of the proceeds to cover costs associated with preventing, preparing for and responding to coronavirus as reimbursement for health care related expenses and lost patient revenues that are attributable to the coronavirus. The overall impact of the COVID-19 pandemic and the effect it will have on the economic and specifically the health care environment is unknown at this time due to the uncertainty of the pandemic and it constantly changing and evolving.

Additionally, there has been significant volatility in the investment markets both nationally and globally since February 29, 2020, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the System's investment portfolio. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The System expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Required Supplementary Information

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Schedule of Changes in the System's Net Pension Liability and Related Ratios
(Dollar amounts in thousands)

	Plan Year Ended December 31,					
	2019	2018	2017	2016	2015	2014
Total pension liability:						
Service cost	$ 8,057	$ 8,280	$ 6,803	$ 7,232	$ 7,795	$ 8,642
Interest	63,183	60,495	61,427	59,397	57,482	52,342
Difference between expected and actual experience	243	8,000	1,718	(4,063)	4,637	(1,909)
Changes of assumptions	23,528	15,748	10,709	-	-	40,689
Benefit payments	(47,367)	(44,712)	(42,563)	(40,178)	(44,023)	(34,444)
Net change in total pension liability	47,644	47,811	38,094	22,388	25,891	65,320
Total pension liability – beginning	914,616	866,805	828,711	806,323	780,432	715,112
Total pension liability – ending (a)	962,260	914,616	866,805	828,711	806,323	780,432
Plan fiduciary net position:						
Contributions – employer	33,621	30,984	29,433	32,693	31,759	31,292
Net investment income	119,362	(35,426)	107,519	37,401	(4,891)	37,069
Benefit payments	(47,367)	(44,712)	(42,563)	(40,178)	(44,023)	(34,444)
Administrative expense	(3,010)	(2,442)	(2,478)	(232)	(2,389)	(2,302)
Net change in plan fiduciary net position	102,606	(51,596)	91,911	29,684	(19,544)	31,615
Plan fiduciary net position – beginning	634,716	686,312	594,401	564,717	584,261	552,646
Plan fiduciary net position – ending (b)	737,322	634,716	686,312	594,401	564,717	584,261
System's net pension liability – ending (a) – (b)	$ 224,938	$ 279,900	$ 180,493	$ 234,310	$ 241,606	$ 196,171
Plan fiduciary net position as a percentage of the total pension liability	76.62%	69.40%	79.18%	71.73%	70.04%	74.86%
Covered payroll	$ 163,835	$ 169,885	$ 173,272	$ 182,060	$ 197,360	$ 210,728
System's net pension liability as a percentage of covered payroll	137.30%	164.76%	104.17%	128.70%	122.42%	93.09%

Notes to Schedule:

Changes of assumptions – In 2014, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2014 bottom quartile mortality tables with generational mortality improvement projected after 2014 with 50% of Scale MP-2014 for purposes of developing mortality rates.

Changes of assumptions – In 2017, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the MP-2017 scale and rate of return on investments from 7.5% to 7.0%.

Changes of assumptions – In 2018, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2014 total dataset mortality tables with generational mortality improvement projected after 2006 using Scale MP-2018 for purposes of developing mortality rates and change in inflation rate from 3.0% to 2.5%.

Changes of assumptions – In 2019, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the Pri-2012 total dataset mortality tables with generational mortality improvement projected after 2015 using Scale MP-2019 for purposes of developing mortality rates and change in investment return rate from 7.0% to 6.75%.

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Schedule of System Pension Contributions
January 1, 2020

	Plan Year Ended December 31,					
	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 33,621	$ 30,984	$ 29,433	$ 32,693	$ 31,759	$ 31,292
Contributions in relation to the actuarially determined contribution	33,621	30,984	29,433	32,693	31,759	31,292
Contribution deficiency (excess)	-	-	-	-	-	-
Covered payroll	$ 163,835	$ 169,885	$ 173,272	$ 182,060	$ 197,360	$ 210,728
Contributions as a percentage of covered payroll	20.52%	18.24%	16.99%	17.96%	16.09%	14.85%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Layered over a closed 20-year period
Asset valuation method	Market value, 5-year smoothing
Inflation	2.5%
Salary increases	5.1% initial rate 3.0% ultimate rate
Investment rate of return	6.75%, net of pension plan investment expense, including expense, including inflation
Retirement age	Various – Expected retirement ages are adjusted to more closely reflect actual experience
Mortality	Pri-2012 Disability Mortality Table, with generational mortality improvement projected after year 2012 using Scale MP-2019

Harris County Hospital District,
d/b/a Harris Health System,
A Component Unit of Harris County, Texas
Schedule of Changes in the System's Total OPEB Liability and Related Ratios
(Dollar amounts in thousands)

	2020	2019
Total OPEB liability:		
Service cost	$ 9,424	$ 9,746
Interest	15,195	13,820
Experience gains	(30,004)	-
Changes of assumptions	63,631	-
Benefit payments	(16,137)	(20,173)
Net change in total OPEB liability	42,109	3,393
Total OPEB liability – beginning	444,321	440,928
Total OPEB liability – ending	$ 486,430	$ 444,321
Covered employee payroll	$ 514,871	$ 491,810
System's total OPEB liability as a percentage of covered payroll	94.48%	90.34%

Notes to Schedule:

This schedule is presented as of the measurement date which is as of the fiscal year-end.

Changes of assumptions – Change in discount rate from 4% in 2018 to 3.21% in 2019.

Changes of assumptions – In 2019, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the Pri-2012 total dataset mortality table projected with Improvement Scale MP-2019 as of February 29, 2020. Additionally, the discount rate was changed to 2.50% and the medical trend assumption was updated from 6.50% grading uniformly to 4.75% over 7 years to 7.50% grading uniformly to 6.75% over 3 years and following the Getzen model thereafter.