




Harris County Hospital District Pension Plan

**Independent Auditor's Report and Financial
Statements**

December 31, 2022 and 2021



Harris County Hospital District Pension Plan

December 31, 2022 and 2021

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Independent Auditor's Report

Board of Trustees, Pension and Disability Committee
and Plan Administrator
Harris County Hospital District, d/b/a
Harris Health System
Houston, Texas

Opinion

We have audited the financial statements of Harris County Hospital District Pension Plan (the Plan), which comprise the statements of fiduciary net position as of December 31, 2022 and 2021, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2022 and 2021, and the changes in its fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary 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 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.

FORVIS,LLP

**Dallas, Texas
July 27, 2023**

Harris County Hospital District Pension Plan

Management's Discussion and Analysis (Unaudited)

December 31, 2022, 2021 and 2020

As management of the Harris County Hospital District, d/b/a Harris Health System (the System), we offer readers of the financial statements of Harris County Hospital District Pension Plan (the Plan), this narrative overview and analysis of the financial activities of the Plan for the years ended December 31, 2022, 2021 and 2020.

Financial Highlights

- Net position of the Plan as of December 31, 2022, 2021 and 2020, was \$821,202,643, \$966,372,944 and \$876,637,227, respectively. The net position is restricted for use for the payment of future employee pension benefits.
- The Plan's net position restricted for pensions decreased (\$145,170,301) for the year ended December 31, 2022, increased \$89,735,717 for the year ended December 31, 2021, and increased \$139,315,587 for the year ended December 31, 2020.
- Contributions to the Plan are made solely by the employer, the System, as determined by the Plan's actuaries based on future obligations and required funding to meet those obligations. These contributions totaled \$60,000,000, \$57,000,000 and \$53,777,666 for the years ended December 31, 2022, 2021 and 2020, respectively.
- The Plan's total investment income (loss) in 2022, 2021 and 2020 was (\$146,103,720), \$88,725,192 and \$138,087,869, yielding a total return on investment of (16.5 percent), 9.6 percent and 17.1 percent, respectively. Investment income consists of interest, dividend income and net appreciation (depreciation) in the fair value of investments. In 2022, the U.S. economic activity was negatively impacted and weakened. In 2021 and 2020, the U.S. economic activity firmed and strengthened. A detail of the asset allocation for the years ended December 31, 2022, 2021 and 2020, was as follows:

	2022	2021	2020
Domestic equities (common stocks)	30 %	33 %	34 %
International equities (common collective trust and mutual funds)	29	26	28
Fixed income investment (fixed income securities and mutual funds)	31	33	30
Hedge funds (common collective trusts)	5	4	4
REIT (common collective trusts)	5	4	4
Total	100 %	100 %	100 %

- Benefit payments are the primary expense of the Plan. Such payments totaled \$56,575,806, \$53,264,444 and \$50,183,995 for the years ended December 31, 2022, 2021 and 2020, respectively.
- Other expenses of the Plan include administrative and investment management expenses, which totaled \$2,490,775, \$2,725,031 and \$2,365,953 for the years ended December 31, 2022, 2021 and 2020, respectively.

Harris County Hospital District Pension Plan

Management's Discussion and Analysis (Unaudited)

December 31, 2022, 2021 and 2020

Overview of the Financial Statements

Our discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's financial statements are composed of financial statements and notes to the financial statements. The financial statements consist of two statements: (1) statement of fiduciary net position and (2) statement of changes in fiduciary net position. These statements present information on all the Plan's assets and liabilities with the difference between the two reported as net position restricted for pensions. Over time, increases or decreases in net position restricted for pensions may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating. The statement of changes in fiduciary net position presents information showing how the Plan's net position restricted for pensions changed during the year. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Investment Policy

The Plan's investment policy requires the Plan to maintain target asset allocation and ranges for the total fund. The asset allocation and ranges are as follows:

	Target	Range
Domestic equity	33 %	20-46 %
International equity	22	15-29
Fixed income	35	23-47
Hedge funds	5	3-7
Real estate funds	5	3-7
Total	100 %	

The Plan's investment policy was adhered to during the years ended December 31, 2022, 2021 and 2020.

Fiduciary Net Position

	2022	2021	2020
Cash	\$ 40,444,435	\$ 13,618,260	\$ 16,262,372
Common stocks	248,068,402	324,763,143	287,004,488
Mutual funds	246,949,236	328,217,354	307,636,891
Collective investment trusts	189,844,975	170,606,355	160,200,178
Fixed income securities	129,606,257	134,862,314	112,127,642
Short-term investments	2,100,099	133,687	1,753,408
Receivables from accrued income and other	3,700,467	5,503,167	2,053,630
	860,713,871	977,704,280	887,038,609
Liabilities from accrued expenses and other	(39,511,228)	(11,331,336)	(10,401,382)
Net pension restricted for pensions	\$ 821,202,643	\$ 966,372,944	\$ 876,637,227

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Management's Discussion and Analysis (Unaudited)
December 31, 2022, 2021 and 2020

Changes in Fiduciary Net Position

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 966,372,944	\$ 876,637,227	\$ 737,321,640
Contributions	60,000,000	57,000,000	53,777,666
Investment income (loss)	(146,103,720)	88,725,192	138,087,869
Deductions	(59,066,581)	(55,989,475)	(52,549,948)
	<u>\$ 821,202,643</u>	<u>\$ 966,372,944</u>	<u>\$ 876,637,227</u>

Investment Expenses

The Plan's investment expenses for the year ended December 31, 2022 are summarized as follows:

	<u>Direct and Indirect Fees and Commissions</u>					<u>Total</u>
	<u>Management Fees Paid from Trust</u>	<u>Management Fees Netted from Returns</u>	<u>Total Management Fees</u>	<u>Brokerage Fees/Commissions</u>	<u>Profit Share/Carried Interest</u>	
Equity securities	\$ 1,505,148	\$ -	\$ 1,505,148	\$ -	\$ -	\$ 1,505,148
Fixed income	304,115	-	304,115	-	-	304,115
Real assets	201,064	-	201,064	-	-	201,064
Total direct and indirect fees and commissions	<u>\$ 2,010,327</u>	<u>\$ -</u>	<u>\$ 2,010,327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,010,327</u>

Investment services

Custodial	308,610
Foreign income tax	38,233
Investment consulting	121,583
Legal	12,022
Total investment services	<u>\$ 480,448</u>

Total administrative expenses \$ 2,490,775

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Management's Discussion and Analysis (Unaudited)
December 31, 2022, 2021 and 2020

The following investment managers have been engaged by the System:

ArrowMark Partners
Blackstone Alternative Asset Management LP
Dodge and Cox
Jennison Associates
JP Morgan
Morgan Stanley
State Street Corporation
TCW Asset Management Co.
Wedge Capital Investment Management
William Blair & Company LLC
Eaton Vance

The Plan holds other/alternative investments in Blackstone Partners Offshore Fund Ltd., which is managed by Blackstone Alternative Asset Management LP.

Request for Information

This financial report is designed to provide a general overview of the Plan's finances. Questions about this report and requests for additional financial information should be directed to the Harris County Hospital District, d/b/a Harris Health System, Attention: Benefits Department, 4800 Fournace Place, Bellaire, Texas 77401.

Harris County Hospital District Pension Plan
Statements of Fiduciary Net Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash	\$ 40,444,435	\$ 13,618,260
Investments, At Fair Value		
Fixed income securities	129,606,257	134,862,314
Mutual funds:		
Fixed income	120,851,605	178,289,855
International equity	126,097,631	149,927,499
Common stocks	248,068,402	324,763,143
Collective investment trusts:		
International equity	108,281,826	94,836,849
Multistrategy	38,604,095	37,427,572
Real estate	42,959,054	38,341,934
Short-term investments	2,100,099	133,687
Total investments	816,568,969	958,582,853
Receivables		
Due from broker for securities sold	2,385,920	5,218,274
Accrued interest and dividends	1,314,547	284,893
Total receivables	3,700,467	5,503,167
Total assets	860,713,871	977,704,280
Liabilities		
Accrued administrative expenses	522,503	667,120
Due to broker for securities purchased	38,988,725	10,664,216
Total liabilities	39,511,228	11,331,336
Net position restricted for pensions	\$ 821,202,643	\$ 966,372,944

Harris County Hospital District Pension Plan
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Employer Contributions	\$ 60,000,000	\$ 57,000,000
Investment Income (Loss)		
Net (depreciation) appreciation in fair value of investments	(160,177,585)	77,512,212
Interest	3,642,960	1,409,740
Dividends	10,449,684	9,821,151
Other loss	<u>(18,779)</u>	<u>(17,911)</u>
Total investment (loss) income	<u>(146,103,720)</u>	<u>88,725,192</u>
Total (deductions) additions	<u>(86,103,720)</u>	<u>145,725,192</u>
Deductions		
Benefits paid to participants and beneficiaries	56,575,806	53,264,444
Administrative expenses	<u>2,490,775</u>	<u>2,725,031</u>
Total deductions	<u>59,066,581</u>	<u>55,989,475</u>
Net (Decrease) Increase in Net Position Restricted for Pensions	(145,170,301)	89,735,717
Net Position Restricted for Pensions, Beginning of Year	<u>966,372,944</u>	<u>876,637,227</u>
Net Position Restricted for Pensions, End of Year	<u>\$ 821,202,643</u>	<u>\$ 966,372,944</u>

Harris County Hospital District Pension Plan

Notes to Financial Statements

December 31, 2022 and 2021

Note 1: Description of the Plan

The following description of Harris County Hospital District Pension Plan (the Plan) provides only general information. Participants should refer to the *Summary Plan Description* for more complete information, a copy of which is available from the Harris County Hospital District, d/b/a Harris Health System (the System).

General

The Plan is a noncontributory, single-employer defined-benefit pension plan covering all full-time employees of the System who meet the Plan's service requirements. As a governmental plan, it is exempt from the reporting and disclosure requirements of the *Employee Retirement Income Security Act of 1974*, and follows the reporting requirements as dictated by the Governmental Accounting Standards Board.

In October 2006, the System Board of Trustees (Board) amended the Plan to close enrollment to new hires effective January 1, 2007. 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 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 up to 5 percent.

The Plan is administered by an administrative committee (the Committee) appointed by the Board of the System. The Committee comprises nine members who are responsible for administering the Plan under the terms that are established. The Board, as authorized in the *Plan Document*, approves amendments to the Plan. State Street (the Trustee) serves as trustee and custodian for the Plan.

Contributions

Contributions to provide benefits under the Plan are made solely by the System. The System makes annual contributions based on an actuarial valuation of the Plan. The actuarial recommended contribution includes normal cost, plus amortization of the expected unfunded liability, if any.

Pension Benefits

Active employees with one or more years of service, who meet eligibility requirements, are entitled to a monthly pension payment beginning at normal retirement age (65) equal to the benefit accrued based on compensation and years of service. The Plan permits early retirement at ages 55 to 64, provided 10 years of service has been completed. If employees terminate after five years of service, they retain the right to vested benefits. Participants become 100 percent vested in their accrued benefits after five years of service. Each participant shall have a monthly benefit payable for life that is equal to the greater of (a) the number of years of service multiplied by 1.5 percent of the average monthly compensation (average base compensation received in the five highest

Harris County Hospital District Pension Plan

Notes to Financial Statements

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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 the average monthly compensation, subject to a minimum equal to the benefit earned under the Plan prior to the adoption of the sixth 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 (the IRC). Participants may also elect to receive their benefits in other optional forms.

If the present value of a terminating participant's vested benefit is \$1,000 or less, the benefit will automatically be paid in a lump sum. In 2022 and 2021, there were no lump-sum payments made to terminated participants.

Death and Disability Benefits

If an active employee dies, a benefit equal to one-half of the normal pension benefit will be due to the spouse of the participant if the participant has attained 10 years of service. The beneficiary of a deceased retired participant is entitled to a lump-sum payment of \$5,000. If a participant becomes disabled, the participant will be paid 55 percent of his/her average monthly compensation, less 64 percent of the monthly primary social security benefit at the time of disability. Disability benefits will be paid during the participant's disability or until retirement age is reached, whichever is shorter.

Plan Membership

Membership of the Plan consisted of the following as of January 1, 2022 and 2021, respectively:

	<u>2022</u>	<u>2021</u>
Inactive Plan members or beneficiaries currently receiving benefits	3,395	3,290
Inactive Plan members entitled to but not yet receiving benefits	1,315	1,333
Active Plan members	<u>1,860</u>	<u>2,014</u>
Total Plan members	<u><u>6,570</u></u>	<u><u>6,637</u></u>

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. The Plan applies the Governmental Accounting Standards Board pronouncements applicable to benefit plan accounting and reporting.

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Notes to Financial Statements

December 31, 2022 and 2021

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, disclosure of contingent assets and liabilities and the actuarial present value of accumulated Plan benefits at the date of the financial statements and changes therein. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan utilizes various investment securities, including U.S. Government securities, corporate debt instruments, mutual funds, common stocks, collective investment trusts and real estate investment trusts. Investment securities, in general, are exposed to various risks, such as interest rate, credit risk, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The actuarial present value of accumulated Plan benefits is calculated based on economic and demographic assumptions, including investment return rates, inflation rates, salary increases, retirement ages and mortality rates. Due to uncertainties inherent in the estimations and assumptions processes, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Valuation of Investments and Income Recognition

Investments are reported at fair value. Quoted market prices, if available, are used to value investments. Mutual funds, including short-term investments, are valued at the net asset value (NAV) of shares held by the Plan at year-end. Common stocks are valued at the closing price reported on the active market on which the individual securities are traded. Fixed income securities are valued on the basis of yields currently available on comparable securities of issuers with similar credit ratings. Units of collective investment trusts are stated at fair value using NAV practical expedient.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) in fair value of investments includes the Plan's gains and losses on investments bought and sold, as well as held during the year.

Certain management fees and operating expenses charged to the Plan for investments in mutual funds are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

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Notes to Financial Statements

December 31, 2022 and 2021

Administrative Expenses

All administrative expenses incurred in the operation of the Plan are paid by the Plan as provided in the *Plan Document*. The System provides accounting and certain other administrative services to the Plan at no charge.

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Note 3: Investments

The fair value of investments as of December 31, 2022 and 2021, is presented in the following table (in thousands):

	2022	2021
Common stocks	\$ 248,068	\$ 324,763
Mutual funds	246,949	328,217
Collective investment trusts	189,845	170,606
Fixed income securities	129,606	134,862
Short-term investments	2,100	134
Total	<u>\$ 816,569</u>	<u>\$ 958,583</u>

The Plan categorizes its fair value measurements within the fair value hierarchy established by GAAP. 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 mutual funds held by the Plan are actively traded and valued at the daily closing price as reported by the fund and are disclosed as investments in Registered Investment Companies. The collective investment trusts held by the Plan are valued at NAV of the respective investments as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the investment will be sold for an amount different from the reported NAV.

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Notes to Financial Statements
December 31, 2022 and 2021

The following is a summary of the hierarchy of the fair value of investments of the Plan as of December 31, 2022 (in thousands):

	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	December 31, 2022, Total
Debt securities:			
U.S. Treasury securities	\$ -	\$ 66,846	\$ 66,846
Asset backed	-	7,039	7,039
Agencies	-	3,071	3,071
Commercial mortgage-backed securities	-	14,261	14,261
Corporate bonds	-	35,402	35,402
Mortgages	-	2,014	2,014
Municipals	-	973	973
Fixed income mutual funds	120,852	-	120,852
Total debt securities	<u>120,852</u>	<u>129,606</u>	<u>250,458</u>
Equity securities:			
Domestic	248,068	-	248,068
International	126,098	-	126,098
Total equity securities	<u>374,166</u>	<u>-</u>	<u>374,166</u>
Short-term investment funds	2,100	-	2,100
Total investments by fair value level	<u>\$ 497,118</u>	<u>\$ 129,606</u>	<u>626,724</u>
Collective investment trusts measured at the NAV practical expedient:			
International equity			108,282
Hedge funds - multistrategy			38,604
Real estate			42,959
Total investments at NAV			<u>189,845</u>
Total investments measured at fair value			<u>\$ 816,569</u>

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Notes to Financial Statements
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The following is a summary of the hierarchy of the fair value of investments of the Plan as of December 31, 2021 (in thousands):

	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	December 31, 2021, Total
Debt securities:			
U.S. Treasury securities	\$ -	\$ 80,612	\$ 80,612
Asset backed	-	6,481	6,481
Agencies	-	2,523	2,523
Commercial mortgage-backed securities	-	7,763	7,763
Corporate bonds	-	33,249	33,249
Mortgages	-	2,173	2,173
Municipals	-	2,061	2,061
Fixed income mutual funds	178,290	-	178,290
Total debt securities	<u>178,290</u>	<u>134,862</u>	<u>313,152</u>
Equity securities:			
Domestic	324,763	-	324,763
International	149,927	-	149,927
Total equity securities	<u>474,690</u>	<u>-</u>	<u>474,690</u>
Short-term investment funds	134	-	134
Total investments by fair value level	<u>\$ 653,114</u>	<u>\$ 134,862</u>	<u>\$ 787,976</u>
Collective investment trusts measured at the NAV practical expedient:			
International equity			94,837
Hedge funds - multistrategy			37,428
Real estate			<u>38,342</u>
Total investments at NAV			<u>170,607</u>
Total investments measured at fair value			<u>\$ 958,583</u>

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Notes to Financial Statements

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Investments Measured Using the NAV per Share Practical Expedient

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of December 31, 2022 and 2021. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
December 31, 2022 (in thousands):				
International equity	\$ 108,282	None	Daily	None
Hedge funds - multistrategy	38,604	None	Monthly	95 days
Real estate	<u>42,959</u>	None	Quarterly	45 days
Total investments at NAV	<u>\$ 189,845</u>			
December 31, 2021 (in thousands):				
International equity	\$ 94,837	None	Daily	None
Hedge funds - multistrategy	37,428	None	Monthly	95 days
Real estate	<u>38,342</u>	None	Quarterly	45 days
Total investments at NAV	<u>\$ 170,607</u>			

For collective investment trusts that are measured at NAV per share, the valuation provided by the fund manager is used. All partnerships provide audited financial statements, along with unaudited quarterly reports.

International equity - The trust's investment is an international equity and the investment objective is to seek long-term capital appreciation above the MSCI All Country World Ex-U.S. Investable Market Index (net), by investing at least 80 percent of its total assets in a diversified portfolio of common stocks and in securities convertible into, exchangeable for or having the right to buy such common stocks that issued by companies of all sizes domiciled outside the United States.

Hedge funds – multistrategy - This type invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility, primarily through limited partnerships. The fund is organized by investing substantially all assets through a master feeder structure and may use a wide range of investment strategies.

Real estate - This type invests in institutional quality real estate private equity funds to provide income, low-correlation to other investments and a hedge against inflation.

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Notes to Financial Statements
December 31, 2022 and 2021

During the Plan years ended December 31, 2022 and 2021, the Plan's investments (including investments bought, sold and held during the Plan year) appreciated (depreciated) in value by (\$160,177,585) and \$77,512,212, respectively, as follows (in thousands).

	2022	2021
Common stocks	\$ (91,912)	\$ 61,108
Mutual funds	(37,754)	(658)
Collective investment trusts	(30,512)	17,062
Total	\$ (160,178)	\$ 77,512

Note 4: Investment Risk Disclosures

Investment Policy

Substantially all of the Plan's investments are held by the Trustee. The Committee authorizes various portfolio managers to manage investments within the guidelines of the Plan's statement of investment policy (the Policy) set forth by the Committee. The Policy mandates a diversified portfolio, which includes investments in collective investment trusts, fixed income securities and equity securities. The GAAP requires disclosure of common deposit and investment risks, including credit risk, concentration of credit risk, custodial credit risk, interest rate risk and foreign currency risk of investments.

The Policy in regard to the allocation of invested assets is established and may be amended by the System's Board of Trustees by a majority vote of its members. It is the policy of the Plan Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Policy discourages the use of cash equivalents, except for liquidity purposes and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board of Trustee's adopted asset allocation as of December 31, 2022 and 2021:

Asset Class	2022 Target Allocation	2021 Target Allocation
International equity	22 %	25 %
Fixed income	35	35
Domestic equity	33	30
Hedge funds	5	5
Real estate funds	5	5
	100 %	100 %

Harris County Hospital District Pension Plan

Notes to Financial Statements

December 31, 2022 and 2021

Money-weighted Rate of Return

For the years ended December 31, 2022 and 2021, the annual money-weighted rate of return on pension plan investments, net of pension investment expenses, was (16.53) percent and 9.84 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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. The Policy establishes minimum acceptable credit ratings for certain investment instruments. Fixed income investment managers are expected to invest in a well-diversified mix of debt instruments, including U.S. Treasury, agency, mortgage-backed, asset-backed, corporate, Eurodollar and Yankee issue. The Core Plus Fixed Income Investment manager may also invest in derivative instruments such as options, future contracts or swap agreements. With the exception of the U.S. Treasury and its agencies, no more than 5 percent of the market value of the portfolio should be invested in the securities of a single issuer. No more than 15 percent of the Fixed Income Investment Manager's portion of the Plan 120 percent of the benchmark's allocation, whichever is greater, shall be rated less than "A" quality. Bonds of foreign issuers are permitted to comprise up to 30 percent of a Fixed Income Investment Manager's portfolio. The duration of the portfolio is expected to be within 50 percent of the index's duration. Guidelines for diversification and risk tolerance are 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 GAAP does not require disclosure of U.S. Government obligations explicitly guaranteed. As of December 31, 2022 and 2021 below are the Plan's fixed income investments, excluding U.S. Government obligations, at fair value (in thousands):

Security Type	2022		2021	
	Fair Value	Quality	Fair Value	Quality
Fixed income securities:				
Asset backed	\$ 7,039	AA+	\$ 6,481	AA+
Agencies	3,071	AAA	2,523	AAA
Commercial mortgage-backed securities	14,261	AAA	7,763	AAA
Mortgages	2,014	A	2,173	A+
Corporate	35,402	A-	33,249	A-
Municipal	973	AA+	2,061	AA+
Mutual funds	120,852	A-	178,290	A-
Total	<u>\$ 183,612</u>		<u>\$ 232,540</u>	

Harris County Hospital District Pension Plan

Notes to Financial Statements

December 31, 2022 and 2021

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 5 percent of an equity portfolio may be invested in a single company without consent of the Committee. Holdings in any one industry or sector are not to exceed 30 percent of the portfolio market value. No more than 20 percent of the portfolio may be invested in cash equivalents and fixed income securities with fixed income securities not exceeding 15 percent. Concentration by issuer for other investment instruments is limited to 5 percent. The Policy does specify that acceptable investment instruments must have high-quality credit ratings and, consequently, risk is minimal.

As of December 31, 2022 and 2021, the Plan did not hold more than 5 percent of assets in any single issuer other than mutual funds, U.S. Government obligations, collective investment trusts or obligations of U.S. Government chartered entities.

The Plan maintained no investments in derivatives as of December 31, 2022 and 2021.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Plan will not be able to recover its deposits or will not be able to recover collateral securities that are in 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 Plan will not be able to recover the value of its investment or collateral securities that are in possession of another party.

The Plan does not have a formal policy for custodial credit risk. As of December 31, 2022 and 2021, all investments are held in a nominee name of the custodian for the benefit of the Plan.

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 is the sensitivity of its fair market value to changes in market interest rates. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Interest rate risk is limited by the short-term nature of the investments.

Harris County Hospital District Pension Plan

Notes to Financial Statements

December 31, 2022 and 2021

As of December 31, 2022 and 2021, the Plan had the following investments in its fixed income accounts (in thousands):

Security Type	2022		2021	
	Fair Value	Weighted-average Maturity in Years	Fair Value	Weighted-average Maturity in Years
Fixed income securities:				
Asset backed Agencies	\$ 7,039	14.01	\$ 6,481	5.35
Commercial mortgage-backed securities	3,071	22.81	2,523	6.14
Mortgages	14,261	22.53	7,763	5.29
Corporate	2,014	15.94	2,173	2.29
Municipal	35,402	6.81	33,249	4.41
U.S. Treasury	973	8.33	2,061	8.61
Mutual funds	66,846	3.90	80,612	3.87
	<u>120,852</u>	5.00	<u>178,290</u>	7.49
Total	<u>\$ 250,458</u>		<u>\$ 313,152</u>	

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 Plan holds investments in collective investment trusts and mutual funds that are invested in international equities. These investments are denominated in U.S. dollars and accounted for at fair value. The Plan has no exposure to foreign currency fluctuations.

Note 5: Net Pension Liability of the System

The components of the net pension liability of the System as of December 31, 2022 and 2021, were as follows (in thousands):

	2022	2021
Total pension liability	\$ 1,165,437	\$ 1,121,564
Plan net position restricted for pensions	<u>821,203</u>	<u>966,373</u>
System net pension liability	<u>\$ 344,235</u>	<u>\$ 155,191</u>
Plan net position restricted for pensions as a percentage of the total pension liability	70.46%	86.16%

Harris County Hospital District Pension Plan

Notes to Financial Statements

December 31, 2022 and 2021

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2022 and 2021, using the following actuarial assumptions:

	<u>2022</u>	<u>2021</u>
Actuarial cost method	Entry age normal	Entry age normal
Inflation	2.5%	2.5%
Investment rate of return - net of expenses	5.75%	5.75%
Projected salary increases (ultimate rate)	3.0%	3.0%
Assumed retirement age	Various retirement age rates were assumed for ages 55 through 70	Various retirement age rates were assumed for ages 55 through 70
Mortality rate:	Pre-Decrement: Pub-2010 general employee below-median, amount-weighted Post-Decrement (Non-Disabled) Pub-2010 general retiree below-median, amount weighted Disabled: Pub-2010 general disabled retiree, amount weighted Contingent Survivor: Pub-2010 contingent survivor below-median, amount weighted Mortality improvement: The mortality tables include fully generational mortality improvement projected after year 2010 using Scale MP-2021	Healthy: Pri-2012 Total Dataset Mortality Table, with generational mortality improvement projected after year 2012 using Scale MP-2021 Disabled: Pri-2012 Disability Mortality Table, with generational mortality improvement projected after year 2012 using Scale MP-2021 Mortality improvement: The mortality tables include fully generational mortality improvement projected after year 2012 using Scale MP-2021

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.

Harris County Hospital District Pension Plan

Notes to Financial Statements

December 31, 2022 and 2021

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2022 and 2021 (see the discussion of the Plan's investment policy), are summarized in the following table:

Asset class:	2022	2021
Domestic equity - large cap	7.05 %	7.14 %
Domestic equity - small cap	7.62	7.66
International equity	7.72	7.74
Fixed income	4.30	4.13
Hedge funds	6.13	6.01
Real estate	6.24	6.43

Discount Rate

The discount rate used to measure the total pension liability was 5.75 percent for 2022 and 2021, respectively. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Plan's net position restricted for pensions was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. If the Plan were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

System Net Pension Liability	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
(In Thousands)			
December 31, 2022	\$ 481,786	\$ 344,235	\$ 228,076
System Net Pension Liability	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
(In Thousands)			
December 31, 2021	\$ 289,716	\$ 155,191	\$ 42,201

Harris County Hospital District Pension Plan

Notes to Financial Statements

December 31, 2022 and 2021

Note 6: Tax Status

The Plan has received a determination letter from the Internal Revenue Service dated June 10, 2014, stating that the Plan and related trust, as then designed, were in compliance with the applicable requirements of the IRC and therefore not subject to tax. The Plan Administrator believes that the Plan and related trust are currently designed and being operated in compliance with the applicable requirements of the IRC.

Note 7: Related-party Transactions

Certain Plan investments are managed by State Street, which is the trustee and custodian as defined by the Plan. Fees incurred by the Plan for the investment management services are included in net appreciation in fair value of the investment, as they are paid through revenue sharing, rather than a direct payment. Actuarial fees paid by the Plan were \$120,356 and \$108,108 for the years ended December 31, 2022 and 2021, respectively. The System provides certain administrative services at no cost to the Plan.

Note 8: Plan Termination

Although it has not expressed any intention to do so, the System has the right under the Plan, in certain circumstances, to discontinue contributions to the Plan and to terminate the Plan. In the event that the Plan is terminated, the net position of the Plan will be allocated generally to provide the following benefits in the order indicated:

- Benefits due to participants who have reached the age of 65 and to beneficiaries of deceased participants
- Benefits due to participants qualified for early retirement, as defined by the Plan
- Benefits due to other participants in proportion to the actuarial value of their accumulated benefits

In the event the assets are not sufficient to carry out any of the foregoing purposes in full, the allocations to the accounts of individuals thereunder shall be made in the proportion that the assets available bear to the assets required to carry out the purpose in full.

Note 9: Subsequent Events

Subsequent events have been evaluated through July 27, 2023, which is the date the financial statements were available to be issued.

**Required Supplementary Information
(Unaudited)**

Harris County Hospital District Pension Plan
Schedule of Changes in Net Pension Liability and Related Ratios– Unaudited
Last 10 Fiscal Years (For Which Information is Available)
Years Ended December 31, 2022 Through 2014

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:									
Service cost	\$ 9,567	\$ 8,601	\$ 8,036	\$ 8,057	\$ 8,280	\$ 6,803	\$ 7,232	\$ 7,795	\$ 8,642
Interest	65,269	64,147	64,307	63,183	60,495	61,427	59,397	57,482	52,342
Changes of benefit terms:									
Difference between expected and actual experience	28,224	1,782	3,807	243	8,000	1,718	(4,063)	4,637	(1,909)
Changes of assumptions	(2,611)	61,527	50,545	23,528	15,748	10,709	-	-	40,689
Benefit payments	<u>(56,576)</u>	<u>(53,264)</u>	<u>(50,184)</u>	<u>(47,367)</u>	<u>(44,712)</u>	<u>(42,563)</u>	<u>(40,178)</u>	<u>(44,023)</u>	<u>(34,444)</u>
Net change in total pension liability	43,873	82,793	76,511	47,644	47,811	38,094	22,388	25,891	65,320
Total pension liability - beginning	<u>1,121,564</u>	<u>1,038,771</u>	<u>962,260</u>	<u>914,616</u>	<u>866,805</u>	<u>828,711</u>	<u>806,323</u>	<u>780,432</u>	<u>715,112</u>
Total pension liability - ending	<u>1,165,437</u>	<u>1,121,564</u>	<u>1,038,771</u>	<u>962,260</u>	<u>914,616</u>	<u>866,805</u>	<u>828,711</u>	<u>806,323</u>	<u>780,432</u>
Plan net position restricted for pensions:									
Contributions - employer	60,000	57,000	53,778	33,621	30,984	29,433	32,693	31,759	31,293
Net investment income (loss)	(146,104)	88,725	138,087	119,362	(35,426)	107,519	39,529	(4,891)	34,461
Benefit payments	(56,576)	(53,264)	(50,184)	(47,367)	(44,712)	(42,563)	(40,178)	(44,023)	(34,444)
Administrative expenses	<u>(2,491)</u>	<u>(2,725)</u>	<u>(2,366)</u>	<u>(3,010)</u>	<u>(2,442)</u>	<u>(2,478)</u>	<u>(2,360)</u>	<u>(2,389)</u>	<u>(266)</u>
Net change in plan net position restricted for pensions	(145,171)	89,736	139,315	102,606	(51,596)	91,911	29,684	(19,544)	31,044
Plan net position restricted for pensions - beginning	<u>966,373</u>	<u>876,637</u>	<u>737,322</u>	<u>634,716</u>	<u>686,312</u>	<u>594,401</u>	<u>564,717</u>	<u>584,261</u>	<u>553,217</u>
Plan net position restricted for pensions - ending	<u>821,202</u>	<u>966,373</u>	<u>876,637</u>	<u>737,322</u>	<u>634,716</u>	<u>686,312</u>	<u>594,401</u>	<u>564,717</u>	<u>584,261</u>
System net pension liability - ending	<u>\$ 344,235</u>	<u>\$ 155,191</u>	<u>\$ 162,134</u>	<u>\$ 224,938</u>	<u>\$ 279,900</u>	<u>\$ 180,493</u>	<u>\$ 234,310</u>	<u>\$ 241,606</u>	<u>\$ 196,171</u>
Plan net position restricted for pensions as a percentage of the total pension liability	70.46%	86.16%	84.39%	76.62%	69.40%	79.18%	71.73%	70.04%	74.86%
Covered payroll	\$ 150,963	\$ 148,657	\$ 156,479	\$ 163,835	\$ 169,885	\$ 173,272	\$ 182,060	\$ 197,360	\$ 210,728
System net pension liability as a percentage of covered payroll	228.03%	104.40%	103.61%	137.30%	164.76%	104.17%	128.70%	122.42%	93.09%

Harris County Hospital District Pension Plan
Notes to Schedule of Changes in Net Pension Liability and Related Ratios–
Unaudited
Last 10 Fiscal Years (For Which Information is Available)
Years Ended December 31, 2022 Through 2014

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 2012 using Scale MP-2019 for purposes of developing mortality rates and change in investment return rate from 7.0% to 6.75%.

Changes of assumptions – In 2020, 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 2012 using Scale MP-2020 for purposes of developing mortality rates and change in investment return rate from 6.75% to 6.25%.

Changes of assumptions – In 2021, 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 2012 using Scale MP-2021 for purposes of developing mortality rates and change in investment return rate from 6.25% to 5.75%.

Changes of assumptions – In 2022, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the Pub-2010 total dataset mortality tables, changes in withdrawal rates from disclosed as in prior year to 75% of prior rates, changes in retirement rates from disclosed as in prior year to rates as disclosed in valuation section of the report and changes in salary increases from rates based on service disclosed amounts in prior year to rates based on age as disclosed in valuation section of the report.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Harris County will present information for those years for which information is available. Information presented in this schedule has been determined as of Harris County's fiscal year end (December 31) in accordance with GASB 68.

Harris County Hospital District Pension Plan
Schedule of Investment Returns– Unaudited
Last 10 Fiscal Years (For Which Information is Available)
Years Ended December 31, 2022 Through 2014

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	(15.39)%	9.84%	18.29%	18.71%	(5.56)%	17.93%	6.65%	(1.19)%	6.35%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Harris County will present information for those years for which information is available. Information presented in this schedule has been determined as of Harris County's fiscal year end (December 31) in accordance with GASB 68.

Harris County Hospital District Pension Plan
Schedule of Employer Contributions – Unaudited
Last 10 Fiscal Years
Years Ended December 31, 2022 Through 2013
(Dollar Amounts in Thousands)

	Actuarially Determined Contribution	Actual Annual Contribution	Actual Annual Contribution as a Percentage of Actuarially Determined Contribution	Covered Payroll	Contributions as a Percent of Covered Payroll
Plan year ended:					
December 31, 2022	\$ 38,858	\$ 60,000	154 %	\$ 150,963	40 %
December 31, 2021	36,225	57,000	157	148,657	38
December 31, 2020	36,056	53,778	149	156,479	34
December 31, 2019	33,621	33,621	100	163,835	21
December 31, 2018	30,984	30,984	100	169,885	18
December 31, 2017	29,433	29,433	100	173,272	17
December 31, 2016	32,693	32,693	100	182,060	18
December 31, 2015	31,759	31,759	100	197,360	16
December 31, 2014	31,292	31,292	100	210,728	15
December 31, 2013	33,959	33,959	100	220,398	15

Harris County Hospital District Pension Plan
Notes to Required Supplementary Information - Unaudited
Year Ended December 31, 2022
(Dollar Amounts in Thousands)

The information on the required supplementary information was computed as part of the actuarial valuations at the dates indicated.

Additional information as of the latest actuarial valuation is as follows:

Valuation date	December 31, 2022
Actuarial cost method	Entry age normal
Amortization method	Level dollar amortization of unfunded liabilities
Asset valuation method	Market value
Inflation	2.50%
Salary increase (ultimate rate)	3.00%
Investment rate of return	5.75%
Mortality	
	Pre-Decrement:
	Pub-2010 General Employee Below-Median, Amount-Weighted
	Post-Decrement (Non-Disabled):
	Pub-2010 General Retiree Below-Median, Amount-Weighted
	Disabled:
	Pub-2010 General Disabled Retiree, Amount-Weighted
	Contingent Survivor:
	Pub-2010 Contingent Survivor Below-Median, Amount-Weighted
	Mortality Improvement:
	The mortality tables include fully generational mortality improvement projected after year 2010 using Scale MP-2021.