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

Independent Auditor's Report and Financial Statements

September 30, 2024 and 2023

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Contents
September 30, 2024 and 2023

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Independent Auditor's Report

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

Opinions

We have audited the 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), a component unit of Harris County, Texas, as of and for the years ended September 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, based on our audits and the report of other auditors, the accompanying 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 September 30, 2024 and 2023, 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.

We did not audit the financial statements of the Harris County Hospital District Foundation (Foundation), a discretely presented component unit of the System, which represents 2.84% and 2.60% of total assets, 5.83% and 6.55% of net position, and 0.04% and 0.06% of revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2024 and 2023, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Foundation, are based solely on the report of the other auditors.

Basis for Opinions

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 System 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 opinions.

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 System's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 System'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 System'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 pension, and other postemployment benefit information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Management has omitted management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Forvis Mazars, LLP

Dallas, Texas
February 13, 2025

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Statements of Net Position
September 30, 2024 and 2023
(In Thousands)

	2024				2023			
		Component Units				Component Units		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Harris Health	Foundation February 29, 2024	Community Health Choice, Inc. December 31, 2023	Community Health Choice Texas, Inc. December 31, 2023	Harris Health	Foundation February 28, 2023	Community Health Choice, Inc. December 31, 2022	Community Health Choice Texas, Inc. December 31, 2022
Current Assets								
Cash and cash equivalents	$ 1,162,829	$ 122	$ 37,475	$ 555,512	$ 194,456	$ 152	$ 46,807	$ 664,248
Short-term investments	299,387	-	-	-	818,174	-	3,325	100
Accounts receivable – net of allowance for uncollectible accounts of $78,757 in 2024 and $81,369 in 2023	160,502	-	-	-	181,545	-	-	-
Inventories	11,179	-	-	-	9,182	-	-	-
Medicaid supplemental programs receivable	43,972	-	-	-	434,855	-	-	-
Prepaid expenses and other current assets	45,194	2,097	331,247	48,008	54,456	3,027	235,119	66,657
Estimated third-party payor settlements	-	-	-	-	2,839	-	-	-
Due from Community Health Choice, Inc.	13,527	-	-	65,471	12,534	-	-	64,274
Restricted cash and cash equivalents – Local Provider Participation Fund	59,115	-	-	-	31,500	-	-	-
Current portion of assets limited as to use or restricted	24,067	-	-	-	7,974	-	-	-
Total Current Assets	1,819,772	2,219	368,722	668,991	1,747,515	3,179	285,251	795,279
Assets Limited as to Use or Restricted – Net of Current Portion								
Debt service	8,468	-	-	-	25,472	-	-	-
Capital gift proceeds	55,028	-	-	-	54,940	-	-	-
Series 2020 capital asset fund	1,218	-	-	-	6,019	-	-	-
Other	2,389	28,152	-	-	2,282	23,529	-	-
Total Assets Limited as to Use or Restricted – Net	67,103	28,152	-	-	88,713	23,529	-	-
Capital Assets								
Land and improvements	59,611	-	-	-	58,781	-	-	-
Buildings and fixed equipment	878,788	-	-	-	825,426	-	-	-
Major movable equipment	495,595	-	-	-	473,945	-	-	-
Less accumulated depreciation	(893,260)	-	-	-	(848,066)	-	-	-
Total Depreciable Capital Assets, Net	540,734	-	-	-	510,086	-	-	-
Construction in progress	251,498	-	869	-	160,271	-	-	-

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Statements of Net Position
September 30, 2024 and 2023
(In Thousands)

(Continued)

	2024				2023			
		Component Units				Component Units		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Harris Health	Foundation February 29, 2024	Community Health Choice, Inc. December 31, 2023	Community Health Choice Texas, Inc. December 31, 2023	Harris Health	Foundation February 28, 2023	Community Health Choice, Inc. December 31, 2022	Community Health Choice Texas, Inc. December 31, 2022
Capital Assets, Net	$ 792,232	$ -	$ 869	$ -	$ 670,357	$ -	$ -	$ -
Lease Assets, Net	35,496	-	564	-	40,923	-	1,039	-
Subscription Assets, Net	1,145	-	45	-	1,542	-	-	-
Other Assets								
Ad valorem taxes receivable – net of allowance for uncollectible taxes of $56,435 and $50,287 for 2024 and 2023, respectively	8,262	-	-	-	5,766	-	-	-
Derivative asset	-	-	-	-	2,733	-	-	-
Other assets	9,774	55	-	-	8,680	2,125	-	-
Total Other Assets	18,036	55	-	-	17,179	2,125	-	-
Total Assets	2,733,784	30,426	370,200	668,991	2,566,229	28,833	286,290	795,279
Deferred Outflows of Resources								
Resources related to pension	87,142	-	-	-	158,454	-	-	-
Resources related to OPEB	93,597	-	-	-	76,350	-	-	-
Derivative financial instrument	1,598	-	-	-	-	-	-	-
Loss on refunding revenue bonds	5,949	-	-	-	6,554	-	-	-
Total Deferred Outflows of Resources	188,286	-	-	-	241,358	-	-	-
Total Assets and Deferred Outflows of Resources	$ 2,922,070	$ 30,426	$ 370,200	$ 668,991	$ 2,807,587	$ 28,833	$ 286,290	$ 795,279

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Statements of Net Position
September 30, 2024 and 2023
(In Thousands)

(Continued)

	2024				2023			
		Component Units				Component Units		
	Harris Health	Foundation February 29, 2024	Community Health Choice, Inc. December 31, 2023	Community Health Choice Texas, Inc. December 31, 2023	Harris Health	Foundation February 28, 2023	Community Health Choice, Inc. December 31, 2022	Community Health Choice Texas, Inc. December 31, 2022
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION								
Current Liabilities								
Accounts payable and accrued liabilities	$ 197,232	$ 1,109	$ 24,113	$ 54,683	$ 147,423	$ 197	$ 23,564	$ 55,766
Interest payable	884	-	-	-	938	-	-	-
Current portion of employee compensation and related benefit liabilities	50,280	-	-	-	61,595	-	-	-
Postemployment health benefit liability	20,514	-	-	-	18,918	-	-	-
Compensated absences	67,631	-	-	-	62,036	-	-	-
Intergovernmental transfer obligation	72,917	-	-	-	45,302	-	-	-
Medical claims liability	-	-	109,932	268,901	-	-	79,133	357,927
Premium deficiency reserve	-	-	-	24,545	-	-	-	1,105
Experience rebate payable	-	-	-	346	-	-	-	77,138
Liabilities related to the Affordable Care Act	-	-	1,990	-	-	-	2,001	-
Due to Harris Health System	-	-	15,379	-	-	-	11,081	-
Due to Community Health Choice Texas, Inc.	-	-	65,471	-	-	-	64,274	-
Estimated third-party payor settlements	30,349	-	-	-	16,893	-	-	-
Current portion of long-term debt	29,494	-	-	-	29,666	-	-	-
Current portion of subscription liabilities	513	-	-		463	-	-	-
Current portion of lease liabilities	6,599	-	-	-	6,414	-	-	-
Total Current Liabilities	476,413	1,109	216,885	348,475	389,648	197	180,053	491,936
Other Long-Term Liabilities								
Postemployment health benefit liability	453,056	-	-	-	432,130	-	-	-
Net pension liability	235,438	-	-	-	344,235	-	-	-
Lease liabilities	31,360	-	567	-	36,067	-	1,061	-
Subscription liabilities	512	-	39	-	966	-	-	-
Borrowing payable	6,432	-	-	-	7,085	-	-	-
Derivative liability	1,598	-	-	-	-	-	-	-
Arbitrage liability	239	-	-	-	92	-	-	-
Long-Term Debt								
Series 2010 refunding revenue bonds	55,931	-	-	-	57,994	-	-	-
Series 2016 refunding revenue bonds – including premium of $8,149 and $8,977 for 2024 and 2023, respectively	133,569	-	-	-	139,277	-	-	-
Series 2016 certificates of obligation – including premium of $3,104 and $3,603 for 2024 and 2023, respectively	44,789	-	-	-	48,218	-	-	-
Series 2020 certificates of obligation – including premium of $1,855 and $2,497 for 2024 and 2023, respectively	19,485	-	-	-	23,167	-	-	-
Total Liabilities	1,458,822	1,109	217,491	348,475	1,478,879	197	181,114	491,936

(In Thousands)

	2024				2023			
		Component Units				Component Units		
	Harris Health	Foundation February 29, 2024	Community Health Choice, Inc. December 31, 2023	Community Health Choice Texas, Inc. December 31, 2023	Harris Health	Foundation February 28, 2023	Community Health Choice, Inc. December 31, 2022	Community Health Choice Texas, Inc. December 31, 2022
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION								
Deferred Inflows of Resources								
Resources related to pension	$ -	$ -	$ -	$ -	$ 1,192	$ -	$ -	$ -
Derivative financial instrument	-	-	-	-	2,733	-	-	-
Resources related to OPEB	110,354	-	-	-	111,390	-	-	-
Total Deferred Inflows of Resources	110,354	-	-	-	115,315	-	-	-
Net Position								
Net investment in capital assets	469,289	-	-	-	355,254	-	-	-
Restricted for debt service	32,536	-	-	-	33,446	-	-	-
Restricted by donors for capital acquisitions	55,028	-	-	-	54,940	-	-	-
Restricted – other	2,389	25,740	-	-	1,307	24,737	-	-
Unrestricted	793,652	3,577	152,709	320,516	768,446	3,899	105,176	303,343
Total Net Position	1,352,894	29,317	152,709	320,516	1,213,393	28,636	105,176	303,343
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 2,922,070	$ 30,426	$ 370,200	$ 668,991	$ 2,807,587	$ 28,833	$ 286,290	$ 795,279

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2024 and 2023
(In Thousands)

	2024				2023			
		Component Units				Component Units		
	Harris Health	Foundation February 29, 2024	Community Health Choice, Inc. December 31, 2023	Community Health Choice Texas, Inc. December 31, 2023	Harris Health	Foundation February 28, 2023	Community Health Choice, Inc. December 31, 2022	Community Health Choice Texas, Inc. December 31, 2022
Operating Revenues								
Net patient service revenue	$ 748,066	$ -	$ -	$ -	$ 753,635	$ -	$ -	$ -
Medicaid supplemental programs revenue	697,728	-	-	-	719,270	-	-	-
Premium revenue	-	-	1,186,598	1,750,349	-	-	897,108	1,892,084
Other operating revenues	119,178	1,148	468	-	130,799	1,574	489	-
Total Operating Revenues	1,564,972	1,148	1,187,066	1,750,349	1,603,704	1,574	897,597	1,892,084
Operating Expenses								
Salaries, wages, and benefits	1,246,447	506	21,896	68,649	1,223,621	478	14,734	64,448
Pharmaceuticals and supplies	322,272	-	2,321	13,781	293,412	-	3,681	11,974
Physician services	443,730	-	-	-	419,537	-	-	-
Medical claims expense	-	-	1,027,450	1,599,758	-	-	808,627	1,667,186
Purchased services and other	281,052	5,282	85,751	83,650	253,458	4,102	64,647	96,326
Depreciation and amortization	87,748	-	766	2,366	74,434	-	297	1,187
Total Operating Expenses	2,381,249	5,788	1,138,184	1,768,204	2,264,462	4,580	891,986	1,841,121
Operating Income (Loss)	(816,277)	(4,640)	48,882	(17,855)	(660,758)	(3,006)	5,611	50,963
Nonoperating Revenues (Expenses)								
Ad valorem tax revenues, net	874,155	-	-	-	822,755	-	-	-
Tobacco settlement revenues	15,210	-	-	-	15,184	-	-	-
Investment income	76,779	5,321	2,032	35,094	76,715	(1,328)	820	10,701
Interest expense	(13,679)	-	(3,381)	(66)	(14,963)	-	(2,847)	-
Capital grants to Harris Health System	-	-	-	-	-	(9,500)	-	-
Other, net	3,313	-	-	-	3,518	-	-	2,695
Total Nonoperating Revenues (Expenses), Net	955,778	5,321	(1,349)	35,028	903,209	(10,828)	(2,027)	13,396
Surplus Transfer Between Affiliates	-	-	-	-	-	-	20,000	(20,000)
Income (Loss) Before Capital Grants and Gifts	139,501	681	47,533	17,173	242,451	(13,834)	23,584	44,359
Capital grants from the Foundation	-	-	-	-	9,500	-	-	-
Changes in Net Position	139,501	681	47,533	17,173	251,951	(13,834)	23,584	44,359
Net Position, Beginning of Year	1,213,393	28,636	105,176	303,343	961,442	42,470	81,592	258,984
Net Position, End of Year	$ 1,352,894	$ 29,317	$ 152,709	$ 320,516	$ 1,213,393	$ 28,636	$ 105,176	$ 303,343

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Statements of Cash Flows
Years Ended September 30, 2024 and 2023
(In Thousands)

	2024	2023
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	$ 788,624	$ 745,161
Receipts from Medicaid supplemental programs	1,088,611	765,767
Receipts from incentive programs and grants	29,091	11,483
Receipts from other revenues	109,677	106,546
Payments to suppliers	(1,040,928)	(973,129)
Payments to employees and for employee benefits	(1,287,193)	(1,185,941)
Net Cash Used in Operating Activities	(312,118)	(530,113)
Cash Flows from Noncapital Financing Activities		
Contributions and other, net	2,726	3,377
Ad valorem taxes, net	862,242	811,496
Interest paid	(900)	(901)
Repayment of long-term debt	(2,091)	(1,990)
Tobacco settlement revenues	15,210	15,184
Net Cash Provided by Noncapital Financing Activities	877,187	827,166
Cash Flows from Capital and Related Financing Activities		
Receipt of property taxes for debt service	8,940	8,628
Acquisitions and construction of capital assets	(183,385)	(143,634)
Contributions restricted for the acquisition and construction of capital assets	-	9,500
Interest paid on long-term debt, lease liabilities, and subscription arrangement liabilities	(14,704)	(16,270)
Principal paid on long-term debt, lease liabilities, and subscription arrangement liabilities	(18,683)	(20,165)
Net Cash Used in Capital and Related Financing Activities	(207,832)	(161,941)
Cash Flows from Investing Activities		
Receipts of investment income – including realized gains and losses	87,915	65,118
Increase (decrease) in cash equivalents included in assets limited as to use or restricted	115	(925)
Purchases of investment securities	(333,350)	(1,797,977)
Proceeds from sale and maturities of investment securities	856,456	1,227,702
Net Cash Provided by (Used in) Investing Activities	611,136	(506,082)
Net Increase (Decrease) in Cash and Cash Equivalents	968,373	(370,970)
Cash and Cash Equivalents, Beginning of Year	194,456	565,426
Cash and Cash Equivalents, End of Year	$ 1,162,829	$ 194,456

(In Thousands) (Continued)

	2024	2023
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (816,277)	$ (660,758)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	87,748	74,434
Changes in operating assets and liabilities		
Accounts receivable	21,043	(66,646)
Inventories	(1,997)	1,487
Medicaid supplemental programs receivable	390,883	46,497
Prepaid expenses and other assets	(1,306)	(16,506)
Estimated third-party payor settlements receivable	2,839	53,732
Accounts payable and accrued liabilities	31,651	(6,750)
Net pension liability	(108,797)	189,044
Employee compensation and related benefit liabilities	(11,315)	11,987
Compensated absences	5,595	4,255
Estimated third-party payor settlements payable	13,456	3,356
Postemployment health benefit liability	22,522	(11,480)
Deferred inflows of resources – pension	(1,192)	(86,961)
Deferred outflows of resources – pension	71,312	(85,673)
Deferred inflows of resources – OPEB	(1,036)	(19,152)
Deferred outflows of resources – OPEB	(17,247)	39,021
Total adjustments	504,159	130,645
Net Cash Used in Operating Activities	$ (312,118)	$ (530,113)
Supplemental Disclosures of Noncash Operating, Capital, Financing, and Investing Activities		
Unrealized gain (loss) on investments	$ (12,378)	$ 6,538
Amounts related to acquisition of capital assets in accounts payable and accrued liabilities	$ 53,457	$ 35,299
Lease obligations incurred for lease assets	$ 2,544	$ 2,898

Note 1. Organization and Mission

Harris County Hospital District d/b/a Harris Health (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. Harris Health operates two acute care hospitals with a total of 617 licensed beds. The System also operates a large outpatient services care platform that includes 16 primary care health centers, seven homeless shelter health clinics, four large multi-specialty clinics, three same day clinics, an urgent care clinic, a freestanding dental center, and a mobile immunization and medical outreach program. Through a cooperative arrangement with Harris County, Harris Health also provides the correctional healthcare services within the Harris County Jail, which is the third largest jail in the U.S. 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 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, 4800 Fournace Place, Bellaire, Texas 77401. Attention: Jeffrey Baker, Executive Director (Jeffrey.Baker@harrishealth.org).

The Harris County Hospital District Strategic Fund (Strategic Fund) was organized in 2023. The Strategic Fund is a nonprofit, tax-exempt corporation organized under Section 501(c)(3) of the Internal Revenue Code whose primary purpose is to lead the private fundraising efforts for the implementation of the Harris Health strategic plan. The Strategic Fund will be reported as a discretely presented component unit of the System. The Strategic Fund staff team began forming in 2024, including hiring its first Executive Director. More than $23 million was pledged to the Strategic Fund's capital campaign in 2024, with fundraising efforts continuing in 2025 to ensure achievement of its $100 million goal.

Community Health Choice, Inc. (CHC) and Community Health Choice Texas, Inc. (CHCT) (collectively, HMOs) are Texas not-for-profit corporations organized under Section 501(c)(4) of the Internal Revenue Code to operate as health maintenance organizations. CHC was incorporated on May 8, 1996, licensed by the Texas Department of Insurance on February 27, 1997, and as of December 31, 2023, offered three Medicaid insurance products as well as individual health insurance on the Health Insurance Marketplace. CHCT was formed in August 2016 to allow the Health Insurance Marketplace and the Medicaid insurance products to be provided and served by separate corporations. CHC is the Health Insurance Marketplace and commercial HMO with 131,705 enrollees as of December 31, 2023, and CHCT is the Medicaid Managed Care HMO with 292,186 enrollees as of December 31, 2023. 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 (Board) 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: Anna Mateja, Chief Financial Officer (Anna.Mateja@Community HealthChoice.org).

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

The accompanying statements of revenues, expenses, and changes in net position of the System reflect its activities for the years ended September 30, 2024 and 2023. The financial statements of the Foundation are as of and for the years ended February 29, 2024 and February 28, 2023. The financial statements of the HMOs are as of and for the years ended December 31, 2023 and 2022. These years are the most recent fiscal years ended for these component units.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and ad valorem tax revenues) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated, or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, ad valorem taxes, investment income, and interest on capital asset-related debt are included in nonoperating revenues and expenses.

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 statement of net position; statement of revenues, expenses, and changes in net position; and statement 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, lease, and subscription assets, net of accumulated depreciation and amortization, reduced by the amount outstanding for any bonds, notes, or other financing liabilities that were incurred related to the acquisition, use, construction, or improvement of those assets.

- "Restricted" consists of restricted assets reduced by liabilities and deferred inflows of resources related to the assets and are primarily for debt service and capital asset acquisition.
- "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 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 GASB 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, Foundation, and 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 Foundation as discretely presented component units in its financial statements. The Strategic Fund will also be reported as a discretely presented component unit. As of September 30, 2024, the Strategic Fund has more than $23 million pledged as part of its capital campaign, with fundraising efforts continuing in 2025. 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 $4 million and $3 million for the years ended September 30, 2024 and 2023, respectively, is included as a revenue and expense in the System's financial statements. The System pays a portion of the premiums for enrollees to CHC for insurance coverage under the insurance plans that are offered as part of the HMOs' mission. Premiums paid on behalf of enrollees were approximately $9 million and $7 million for the years ended September 30, 2024 and 2023, respectively, which is included as revenue in the HMOs' financial statements and expense in the System's financial statements.

The System supports the Foundation with payments for goods and services of approximately $587 thousand and $557 thousand for the years ended September 30, 2024 and 2023, 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 approximately $3 million and $13 million for the years ended September 30, 2024 and 2023, respectively.

Cash, Cash Equivalents, and 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 HMOs' cash, cash equivalents, and investments are invested in fully collateralized time deposits, commercial paper, money market mutual funds, investment pools, 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 are required by the Board of the System. The Foundation's investments, however, are not subject to these laws.

Investments are reported at amortized cost or fair value, with realized and unrealized gains and losses included in investment income in the statements of revenues, expenses, and change 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 statement 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.

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset in service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. The System has a capitalization policy to only record lease assets related to leases with more than $5,000 of payments over the lease term.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset. The system has a capitalization policy to only record SBITA assets related to agreements with more than $5,000 of payments over the agreement term.

Capital, Lease, and Subscription Asset Impairment

The System evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease, or subscription asset has occurred. If a capital, lease, or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or amortization is increased by the amount of the impairment loss. No material asset impairment was recognized during the years ended September 30, 2024 and 2023.

Deferred Outflows and Inflows of Resources

The System reports the consumption of net assets and an acquisition of net assets that is applicable to a future reporting period as deferred outflows and inflows of resources, respectively, in a separate section of its statement of net position.

Risk Management

The System is exposed to various risks of loss from torts; theft of damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The System is self-insured for a portion of its exposure to risk of loss from medical malpractice and employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

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 75.0%, or at the time of termination, are payable at 75.0%. Changes in the System’s liability for compensated absences for the years ended September 30, 2024 and 2023 are as follows (in thousands):

	Beginning of Year Liability	Current Year Claims and Change in Estimates	Claim Payments	End of Year Liability
September 30, 2024	$ 62,036	$ 108,156	$ 102,561	$ 67,631
September 30, 2023	$ 57,781	$ 94,236	$ 89,981	$ 62,036

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 collectibility 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 $79 million and $81 million as of September 30, 2024 and 2023, 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 year the related services are rendered, and such amounts are adjusted in future years 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 cost of charity care is estimated by applying the ratio of cost to gross charges to the gross charity care charges. The following information measures the level of charity care provided during the years ended September 30, 2024 and 2023 (in thousands):

	2024	2023
Charges foregone, based on established rates	$ 1,049,019	$ 996,213
Cost of foregone charges, estimated	$ 713,528	$ 757,252

Premium Revenue

Premium revenue is recognized as revenue by the HMOs during the coverage period of the subscriber agreement. Under these agreements, the HMOs received monthly premium payments based on the number of participants. 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, 2023 and 2022, the HMOs' fiscal year-end.

Medical and Hospital Claims Expenses and Claim Adjustment Expenses

The HMOs' contract with various healthcare providers for the provision of medical care to its members. The HMOs compensate hospitals on either a discounted fee-for-service or per diem basis and compensates physicians and other healthcare providers primarily on a discounted fee-for-service basis. The cost to the HMOs for healthcare services provided by providers is accrued in the period in which it is provided to members, based in part on estimates, including accruals for medical services provided but not billed and estimates of claims incurred but not yet reported to the HMOs. Medical and hospital expenses and claims adjustment expenses net of reinsurance recoveries represent management's best estimate of the ultimate net cost of all reported and unreported claims incurred through the years ended December 31, 2023 and 2022.

The estimate for unpaid medical expenses, claims payable, and unpaid claims adjustment expenses is actuarially determined based on historical claims payment experience. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. Although considerable variability is inherent in such estimates, management believes the reserves for unpaid claims are appropriate.

Changes in the HMOs' aggregate liability for medical claims for the years ended December 31, 2023 and 2022 are as follows (in thousands):

	December 31, 2023	December 31, 2022
Balance, beginning of year	$ 437,060	$ 292,733
Current year claims incurred and changes in estimates	2,630,707	2,505,209
Claims paid	2,688,934	2,360,882
Balance, end of year	$ 378,833	$ 437,060

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, 2023 and 2022, the HMOs' fiscal year-end, CHCT recognized a premium deficiency reserve for the Health Insurance Marketplace business of $25 million and $1 million, respectively.

CHCT is subject to a premium experience rebate based on the excess of allowable Medicaid revenue over related expenses. As of December 31, 2023 and 2022, CHCT recorded an experience rebate liability of $346 thousand and $77 million, respectively.

In the fiscal year ended December 31, 2023, the HMOs in aggregate paid $2,299 million in claims related to the current fiscal year and $390 million in claims related to the prior fiscal year. In the fiscal year ended December 31, 2022, the HMOs in aggregate paid $2,083 million in claims related to the current fiscal year and $278 million in claims related to the prior fiscal year.

Reinsurance

CHC is party to a reinsurance agreement that limits losses on cumulative inpatient hospital claims. Under the terms of the agreement, CHC is reimbursed 30%, subject to certain limitations as specified in the contract, of the cost of each member's annual inpatient hospital services. CHC carries reinsurance coverage for which the reinsurer reimburses CHC 70% of each member's annual medical services in excess of $1,000,000, up to a limitation of $1,666,667 per member per agreement period for the year.

CHCT carries reinsurance coverage for which the reinsurer reimburses the Company 90% of each member's annual services in excess of a $1,000,000 deductible for CHIP, Perinate, and DSNP and $1,100,000 for STAR, up to a limitation of $5,000,000 per member per agreement period.

The HMOs remain obligated for amounts ceded in the event that the reinsurances do not meet their obligations. Reinsurance contracts do not relieve the HMOs from obligations to policyholders.

Patient Protection and ACA

CHC participates in the federally facilitated health insurance exchange in 20 southeast Texas counties. The exchange was created pursuant to the *Patient Protection and Affordable Care Act* (ACA) under regulations established by the U.S. Department of Health and Human Services (HHS). Under these rules, HHS pays CHC a portion of the policy premium, in the form of the Advanced Premium Tax Credit (APTC). HHS also administers certain risk management programs as detailed below.

CHC recognizes premiums received from its exchange members and the APTC received from HHS as premium revenue when earned and cost-sharing reductions (CSR) offset healthcare costs when incurred. CHC recognized APTC amounts of approximately $798 million and $508 million for 2023 and 2022, respectively. CHC did not record an allowance for the APTC as of December 31, 2023 and 2022.

CHC is currently involved in a dispute with the United States government regarding the payment of CSR for the years 2018 and 2017. The U.S. Court of Appeals for the Federal Circuit ruled in favor of CHC for unpaid CSR payments through December 31, 2017. CHC received a payment related to the 2017 CSR of $11 million in 2022. There is significant uncertainty surrounding any amounts due for 2018 CSR, as there is ongoing debate as to the amount of additional premium tax credit payments that should offset the 2018 CSR receivable. Due to the uncertainty, CHC has not recorded a receivable for the 2018 CSR.

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. CHC issues individual plans and is therefore subject to the risk adjustment program.

The risk adjustment program contains an inherent degree of risk dependent upon the Centers for Medicare & Medicaid Services' (CMS) ability to collect payments under the program from other participating plans in the state of Texas. Under this program, CHC recorded a risk adjustment receivable in the amount of approximately $243 million and $193 million at December 31, 2023 and 2022, respectively, which is reflected in prepaid expenses and other current assets in the accompanying statements of net position.

The Risk Adjustment program was amended beginning for the 2018 benefit year in order to incorporate a high-cost risk pool (HCRP) calculation. The HCRP program funds an insurer's costs for members with claims above $1,000,000 while assessing a fee to all insurers using membership and standard charge percentages based on premiums. At December 31, 2023 and 2022, CHC recorded a receivable of approximately $10 million and $6 million, respectively, related to this program, which is reflected in prepaid expenses and other current assets in the accompanying statements of net position.

The ACA contains a provision where insurers are required to pay rebates to policyholders when minimum medical loss ratio (MLR) thresholds are not met or exceeded over a cumulative three-year period. At December 31, 2023 and 2022, CHC met the minimum MLR threshold for its commercial individual and large group lines of business.

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 year 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* (PRTAA), Chapter 312, as well as its own guidelines and criteria, which is required under the PRTAA.

Tobacco Settlement Revenues

The System receives a portion of the funds from the settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related healthcare costs. Under the program guidelines, the System is free to use the funds in either the immediate or future years without restriction. The System recognizes all funds received from the settlement as nonoperating revenue in the year 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, deferred inflows and outflows of resources, 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.

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, 2021.

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 28, 2018.

Cash received from the Medicare program accounted for approximately 53% and 54% of the System's total cash collections for net patient service revenue for the years ended September 30, 2024 and 2023, respectively. Cash received from the Medicaid program (including managed Medicaid) accounted for approximately 20% and 21% of the System's total cash collections for net patient service revenue for the years ended September 30, 2024 and 2023, 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. Revenue recognized related to the DSH program was approximately $96 million in 2024 and $42 million in 2023 and is recognized as a component of Medicaid supplemental funding programs revenue in the accompanying statements of revenues, expenses, and changes in net position.

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% 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 allowed 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 provided incentive payments for healthcare providers based on improvements in quality of care. Revenue recognized related to the UC pool was approximately $430 million in 2024 and $475 million in 2023 and is recognized as a component of Medicaid supplemental funding programs revenue in the accompanying statements of revenues, expenses, and changes in net position.

On April 22, 2022, CMS approved an extension of the Waiver through September 30, 2030. The extension provides for the continuation of the UC Pool. The DSRIP pool funding ended on September 30, 2021 and was not renewed as part of the extension. CMS has also approved an expansion of directed payment programs, which transitioned participating hospitals away from the DSRIP program, which is discussed more fully below.

In 2022, the System began participating in the Public Hospital Augmented Reimbursement Program (HARP). HARP is a statewide supplemental program that provides Medicaid payments to hospitals for inpatient and outpatient services that serve Texas Medicaid fee-for-service patients. The program also serves as a financial transition for providers that participated in the DSRIP program and provides additional funding to hospitals to assist in offsetting the costs hospitals incur while providing Medicaid services. HARP revenue was approximately $89 million in 2024 and $136 million in 2023 and is recognized as a component of Medicaid supplemental funding programs revenue in the accompanying statements of revenues, expenses, and changes in net position.

The System also receives supplemental payments through the Public Hospital Medicaid Graduate Medical Education (GME) program. The GME program provides reimbursement to support teaching hospitals that operate approved medical residency training programs in recognition of the higher costs incurred by teaching hospitals. Revenue recognized related to the GME program was approximately $26 million in 2024 and $15 million in 2023 and is recognized as a component of Medicaid supplemental funding programs revenue in the accompanying statements of revenues, expenses, and changes in net position.

The System is also a participant in the Network Access Improvement Program (NAIP). NAIP aims to increase the availability and effectiveness of primary care for Medicaid beneficiaries by providing incentive payments to participating health-related institutions (HRI). Participation is voluntary and requires HRIs to create a proposal in partnership with a managed care organization (MCO). When the proposal is approved by HHSC, costs incurred with the incentive payments are added to the monthly capitation rates paid to the MCO and the MCOs are responsible for making payments to the HRIs, such as the System. This program runs through 2027. Revenue recognized related to NAIP was approximately $24 million in 2024 and $33 million in 2023 and is recognized as a component of Medicaid supplemental funding programs revenue in the accompanying statements of revenues, expenses, and changes in net position.

The System also participates in the Comprehensive Hospital Increased Reimbursement Program (CHIRP), which added a quality component to the existing Uniform Hospital Rate Increase Program (UHRIP), a directed payment program that ended on August 31, 2021. Participating hospitals may opt into this second component. Under CHIRP, HHSC directs managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals. CHIRP will require annual approval by CMS and has been approved through August 31, 2025. Beginning on September 1, 2024, HHSC provided for a third component to CHIRP, Alternative Participating Hospital Reimbursement for Improving Quality Award (APHRIQA), that provides an additional pay-for-performance component open to urban and children's hospitals for state fiscal year 2025. The System has not recognized any revenue from APHRIQA as of September 30, 2024. Revenue from CHIRP is recognized as a component of net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

The System recognizes all funds received under these programs as operating revenues in the year 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 year they become known. The System recorded no material adjustments for the year ended September 30, 2024 for prior years' programs. The System's financial statements reflect receivables of approximately $44 million and $435 million at September 30, 2024 and 2023, respectively related to these programs.

The System also participates 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 September 30, 2024 and 2023, the System held approximately $59 million and $32 million, respectively, in LPPF funds which is reported as restricted cash in the statements of net position. At September 30, 2024 and 2023, the System had approximately $73 million and $45 million, respectively, in intergovernmental transfer liability, of which approximately $59 million and $32 million, respectively, related to LPPF, and the residual related to intergovernmental transfers required for private providers.

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% 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 are carried at fair value and investments in non-negotiable certificates of deposit are carried at amortized cost.

The System also invests in Texas CLASS and Lone Star Investment pools (collectively, investment pools), both of which are state investment pools that are considered investments for financial reporting. Investments must be in compliance with the *Texas Public Funds Investment Act* (PFIA) and include obligations of the United States or its agencies, direct obligation of the State of Texas or its agencies, certificates of deposit, and repurchase agreements. The System has an undivided beneficial interest in the pool of assets held by the investment pools. The fair value of the position in these pools is the same as the value of the shares in each pool.

Texas CLASS pool is rated AAAm by Standard & Poor's. Lone Star Investment pool is rated AAAf by Standard & Poor's. Investments in external investment pools qualifying for amortized cost under GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*, are carried at amortized cost per share.

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 September 30, 2024 and 2023.

The components of assets limited as to use or restricted are as follows at September 30, 2024 and 2023 (in thousands).

Description of Assets	Total	Restricted Debt Service	Capital Gift Proceeds	Series 2020 Capital Asset Fund	Restricted Cash and Cash Equivalents LPPF	Other
2024						
Money market mutual funds	$ 60,530	$ -	$ -	$ -	$ 59,115	$ 1,415
Investment pools	57,618	398	55,028	1,218	-	974
United States Treasury obligations	32,137	32,137	-	-	-	-
	150,285	32,535	55,028	1,218	59,115	2,389
Less funds required for current liabilities	(83,182)	(24,067)	-	-	(59,115)	-
	$ 67,103	$ 8,468	$ 55,028	$ 1,218	$ -	$ 2,389
2023						
Money market government funds	$ 33,030	$ -	$ -	$ 170	$ 31,500	$ 1,360
Investment pools	62,342	631	54,940	5,849	-	922
United States Treasury obligations	32,815	32,815	-	-	-	-
	128,187	33,446	54,940	6,019	31,500	2,282
Less funds required for current liabilities	(39,474)	(7,974)	-	-	(31,500)	-
	$ 88,713	$ 25,472	$ 54,940	$ 6,019	$ -	$ 2,282

Foundation – Assets limited as to use of approximately $28 million at February 29, 2024 and approximately $24 million at February 28, 2023 are restricted subject to donor-imposed stipulations that will be met by actions of the Foundation or the passage of time.

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, HMOs, and 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 PFIA and 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 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 located in the United States must not be rated less than A, or its equivalent, by a nationally recognized investment-rating firm. Money market mutual funds and public funds investment pools must be rated AAA or its equivalent. Commercial paper with a stated maturity of 270 days or less from the date of issuance, as authorized by the PFIA, must be rated A-1 or P-1 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% 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 following tables indicate the value and maturity amount of the System's cash equivalents, assets limited as to use, and investments 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 as of September 30, 2024 and 2023 (in thousands):

	2024				
Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Moody's
Investment Pools					
Texas CLASS – Pool (Corporate)	$ 259,892	17.16 %	$ 259,892	0.003	AAAm
Lone Star – Pool (Corporate)	201,858	13.33	201,858	0.003	AAAf
United States Treasury obligations	211,526	13.97	212,850	0.165	Aaa/AA+
Commercial paper					
Barclays Bk PLC US DISC CP	23,819	1.57	24,000	0.166	A1+/P1
DNB Bank ASA DCP	96,178	6.35	96,500	0.068	A1+/P1
Money market mutual funds	720,914	47.62	720,914	0.003	AAAm/Aaa-mf/AAAmmf
Total cash equivalents, assets limited as to use, and investments	$ 1,514,187	100.00 %	$ 1,516,014	0.032	

	2023				
Security	**Fair Value**	**Percentage of Portfolio**	**Maturity Amount**	**Modified Duration (Years)**	**Credit Rating S&P/Moody's**
Investment Pools					
Texas CLASS – Pool (Corporate)	$ 102,548	9.74 %	$ 102,548	0.003	AAAm
Lone Star – Pool (Corporate)	46,756	4.44	46,756	0.003	AAAm
United States Treasury obligations	121,679	11.56	122,175	0.117	Aaa/AA+
Federal Agency obligations	374,446	35.57	375,000	0.435	Aaa/AA+
Municipal Bond	18,449	1.75	18,460	0.088	Aa1/AAA
Commercial paper					
Barclays Bk PLC US DISC CP	189,831	18.02	192,200	0.222	A-1+/P-1
L'Oreal SA DCP	19,846	1.89	20,000	0.141	A-1+/P-1
LVMH Moet Hennessy DCP	29,693	2.82	30,000	0.188	A-1+/P-1
Canadian Imperial Bk Comm Bank Disc	24,722	2.35	25,000	0.205	A-1+/P-1
Halkin Finance DISC CP	24,629	2.34	25,000	0.267	A-1+/P-1
Metlife FDG DISC CP	9,896	0.94	10,000	0.188	A-1+/P-1
Glaxosmithkline LLC DISC CP	23,565	2.24	23,700	0.102	A-1/P-1
Nestle Finance INTL DISC CP	14,233	1.35	14,300	0.085	A-1/P-1
Money market mutual funds	52,520	4.99	52,520	0.003	AAAm/Aaa-mf
Total cash equivalents, assets limited as to use, and investments	$ 1,052,813	100.00 %	$ 1,057,659	0.234	

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. 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% 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% 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. The System is also prohibited from investing more than 25.0% of the overall portfolio in the time deposits, including certificates of deposit, of a single issuer. As of September 30, 2024 and 2023, 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 following table indicates the fair value and maturity amount of the cash equivalents, assets limited as to use, and investments of CHC as of December 31, 2023 and 2022, 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):

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P
December 31, 2023					
Money market mutual funds	$ 37,475	100.00 %	$ 37,475	0.003	AAAm
	$ 37,475	100.00 %	$ 37,475	0.031	
December 31, 2022					
Money market mutual funds	$ 46,807	93.37 %	$ 46,807	0.003	AAAm
Certificates of deposit	3,325	6.63	3,325	0.429	AAAm
	$ 50,132	100.00 %	$ 50,132	0.031	

The following table indicates the fair value and maturity amount of the cash equivalents, assets limited as to use, and investments of CHCT as of December 31, 2023 and 2022, respectively, 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):

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Moody's
December 31, 2023					
Money market mutual funds	$ 555,512	100.00 %	$ 555,512	0.003	AAAm
	$ 555,512	100.00 %	$ 555,512	0.003	
December 31, 2022					
Money market mutual funds	$ 664,248	99.98 %	$ 664,248	0.003	AAAm
Certificates of deposit	100	0.02	100	0.132	AAAm
	$ 664,348	100.00 %	$ 664,348	0.003	

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.

Investments in external investment pools qualifying for amortized cost under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, are carried at amortized cost per share, thus, they are excluded from fair value reporting below.

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 September 30, 2024 and 2023 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2024				
Assets				
Commercial paper	$ 119,997	$ -	$ 119,997	$ -
United States Treasury obligations	211,526	211,526	-	-
Money market mutual funds	720,914	720,914	-	-
Total cash equivalents, assets limited as to use, and investments by fair value	$ 1,052,437	$ 932,440	$ 119,997	$ -
Derivative instruments				
Derivative financial instrument	$ 1,598	$ 1,598	$ -	$ -
2023				
Assets				
Commercial paper	$ 336,415	$ -	$ 336,415	$ -
United States Treasury obligations	121,679	121,679	-	-
Federal agency obligations	374,446	374,446	-	-
Money market mutual funds	52,520	52,520	-	-
Municipal bond	18,449	-	18,449	-
Total cash equivalents, assets limited as to use and investments by fair value	$ 903,509	$ 548,645	$ 354,864	$ -
Derivative instruments				
Derivative financial instrument	$ 2,733	$ 2,733	$ -	$ -

The following is a summary of the hierarchy of the fair value of investments and cash equivalents of CHC as of December 31, 2023 and 2022 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2023				
Assets				
Money market mutual funds	$ 37,475	$ 37,475	$ -	$ -
Total investments and cash equivalents by fair value level	$ 37,475	$ 37,475	$ -	$ -
December 31, 2022				
Assets				
Money market mutual funds	$ 46,807	$ 46,807	$ -	$ -
Total investments and cash equivalents by fair value level	$ 46,807	$ 46,807	$ -	$ -

The following is a summary of the hierarchy of the fair value of investments and cash equivalents of CHCT as of December 31, 2023 and 2022 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2023				
Assets				
Money market mutual funds	$ 555,512	$ 555,512	$ -	$ -
Total investments and cash equivalents by fair value level	$ 555,512	$ 555,512	$ -	$ -
December 31, 2022				
Assets				
Money market mutual funds	$ 664,248	$ 664,248	$ -	$ -
Total investments and cash equivalents by fair value level	$ 664,248	$ 664,248	$ -	$ -

Note 7. Capital and Lease Assets

The System's capital assets activity consists of the following for the years ended September 30, 2024 and 2023 (in thousands):

	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
2024				
Land and improvements	$ 58,781	$ 830	$ -	$ 59,611
Buildings and fixed equipment	825,426	53,362	-	878,788
Major movable equipment	473,945	56,665	(35,015)	495,595
Total historical cost	1,358,152	110,857	(35,015)	1,433,994
Less accumulated depreciation				
Land and improvements	(17,359)	(828)	-	(18,187)
Buildings and fixed equipment	(478,933)	(34,327)	-	(513,260)
Major moveable equipment	(351,774)	(44,274)	34,235	(361,813)
Total accumulated depreciation	(848,066)	(79,429)	34,235	(893,260)
Construction in progress	160,271	91,227	-	251,498
Capital assets, net	$ 670,357	$ 122,655	$ (780)	$ 792,232
2023				
Land and improvements	$ 47,449	$ 11,332	$ -	$ 58,781
Buildings and fixed equipment	729,395	99,730	(3,699)	825,426
Major movable equipment	439,439	50,172	(15,666)	473,945
Total historical cost	1,216,283	161,234	(19,365)	1,358,152
Less accumulated depreciation				
Land and improvements	(16,508)	(851)	-	(17,359)
Buildings and fixed equipment	(454,747)	(27,823)	3,637	(478,933)
Major moveable equipment	(330,109)	(35,375)	13,710	(351,774)
Total accumulated depreciation	(801,364)	(64,049)	17,347	(848,066)
Construction in progress	171,764	(11,493)	-	160,271
Capital assets, net	$ 586,683	$ 85,692	$ (2,018)	$ 670,357

The System's lease assets activity consists of the following for the years ended September 30, 2024 and 2023 (in thousands):

	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
2024				
Buildings	$ 46,874	$ 2,516	$ (66)	$ 49,324
Equipment	7,118	28	(2,377)	4,769
Total lease assets	53,992	2,544	(2,443)	54,093
Less accumulated amortization				
Buildings	(9,722)	(6,436)	66	(16,092)
Equipment	(3,347)	(1,265)	2,107	(2,505)
Total accumulated amortization	(13,069)	(7,701)	2,173	(18,597)
Lease assets, net	$ 40,923	$ (5,157)	$ (270)	$ 35,496
2023				
Buildings	$ 45,887	$ 2,691	$ (1,704)	$ 46,874
Equipment	7,959	207	(1,048)	7,118
Total lease assets	53,846	2,898	(2,752)	53,992
Less accumulated amortization				
Buildings	(3,861)	(7,567)	1,706	(9,722)
Equipment	(2,097)	(2,254)	1,004	(3,347)
Total accumulated amortization	(5,958)	(9,821)	2,710	(13,069)
Lease assets, net	$ 47,888	$ (6,923)	$ (42)	$ 40,923

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.

The following is a summary of long-term debt transactions for the years ended September 30, 2024 and 2023:

	Beginning Balance	Additions	Amortization	Reductions	Ending Balance
2024					
Series 2010 Refunding Revenue Bonds	$ 77,325	$ -	$ -	$ (2,750)	$ 74,575
Series 2016 Refunding Revenue Bonds	134,950	-	-	(4,650)	130,300
Series 2016 Refunding Revenue Bonds premium	8,977	-	(828)	-	8,149
Series 2016 Certificate of Obligation Bonds	47,405	-	-	(2,790)	44,615
Series 2016 Certificate of Obligation Bonds premium	3,603	-	(499)	-	3,104
Series 2020 Certificate of Obligation Bonds	23,565	-	-	(2,895)	20,670
Series 2020 Certificate of Obligation Bonds premium	2,497	-	(642)	-	1,855
	$ 298,322	$ -	$ (1,969)	$ (13,085)	$ 283,268
Current portion					$ 29,494
Long-term portion					253,774
					$ 283,268
2023					
Series 2010 Refunding Revenue Bonds	$ 79,975	$ -	$ -	$ (2,650)	$ 77,325
Series 2016 Refunding Revenue Bonds	139,380	-	-	(4,430)	134,950
Series 2016 Refunding Revenue Bonds premium	9,834	-	(857)	-	8,977
Series 2016 Certificate of Obligation Bonds	50,065	-	-	(2,660)	47,405
Series 2016 Certificate of Obligation Bonds premium	4,132	-	(529)	-	3,603
Series 2020 Certificate of Obligation Bonds	26,320	-	-	(2,755)	23,565
Series 2020 Certificate of Obligation Bonds premium	3,222	-	(725)	-	2,497
	$ 312,928	$ -	$ (2,111)	$ (12,495)	$ 298,322
Current portion					$ 29,666
Long-term portion					268,656
					$ 298,322

Revenue Bonds

On October 3, 2007, the System issued two Series of Harris County Hospital District Senior Lien Refunding Revenue 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. In February 2017, the System paid the non-refunded principal balance due and related interest. 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 had 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 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 $6 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 $5.9 million and $6.6 million at September 30, 2024 and 2023, 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 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 (LOC) 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 expires on August 12, 2025. Unreimbursed advances will accrue interest at the higher of (i) the Prime Rate, (ii) one-month or (ii) 7.5% per annum. The System is also required to pay to the JPMorgan Chase Bank an annual facility fee for the LOC of 0.9% per annum of the outstanding principal amount of the bonds. No amounts were outstanding on the LOC as of September 30, 2024 and 2023.

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.

Pursuant to the terms of the LOC, any drawing made under the LOC on the stated expiration date as a result of the expiration may be repaid by the System in quarterly installments commencing on the date which is the first day of the month following the stated expiration date and on the first day of each third month thereafter, with the final installment in the amount equal to the entire then outstanding principal amount due and payable on the date which is one year after the stated expiration date. Based on these terms and the current expiration date of August 12, 2025, one quarter of the outstanding balance of the Series 2010 Refunding and Revenue bonds has been reflected in the statement of net position as a current liability.

Compliance

The System is in compliance with its debt covenants at September 30, 2024 and 2023.

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%.

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 ($1.6) million and $2.7 million at September 30, 2024 and 2023, respectively, and is reported as a derivative liability and asset, respectively, 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 September 30, 2024 and 2023.

Credit Risk – The risk of a change in the credit quality or credit rating of the System and/or its counterparty. At September 30, 2024, the swap counterparty was rated A by Standard & Poor's, A1 by Moody's Investor Services, and A- by Fitch. At September 30, 2024, the System was rated AA- by Standard & Poor's, Aa1 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 September 30, 2024 and 2023, 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 September 30, 2024 and 2023, termination of the original swap agreement would create a liability of $9 million and $5 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 the years ended September 30, 2024 and 2023, 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.

Annual scheduled debt service requirements of the revenue bonds to maturity are as follows as of September 30, 2024 (in thousands):

	Principal	Interest	Swaps, Net	Total
Years ending September 30				
2025	$ 7,755	$ 8,452	$ 158	$ 16,365
2026	8,125	8,115	91	16,331
2027	8,510	7,763	93	16,366
2028	8,900	7,415	94	16,409
2029	9,310	7,009	84	16,403
2030-2034	53,090	28,636	346	82,072
2035-2039	64,220	16,259	200	80,679
2040-2042	44,965	2,750	37	47,752
Total	$ 204,875	$ 86,399	$ 1,103	$ 292,377

The scheduled payments above do not reflect an additional $15.8 million of the Series 2010 Revenue and Refunding Bonds that is reflected as a current liability in the statement of net position due to the current expiration date of the LOC as discussed above.

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 was as follows for the years ended September 30, 2024 and 2023 (in thousands).

	2024	2023
Beginning balance	$ 7,085	$ 7,762
Reductions	(653)	(677)
Ending balance	$ 6,432	$ 7,085

The following table sets forth the amortization of the hybrid instrument borrowings for the next five years and thereafter as of September 30, 2024 (in thousands):

Years ending September 30	
2025	$ 629
2026	604
2027	577
2028	550
2029	521
2030-2034	2,130
2035-2039	1,216
2040-2042	205
Total	$ 6,432

Certificates of Obligation, Series 2016

In August 2016, the System issued Combination Tax and Revenue Certificates of Obligation, Series 2016 in the principal amount of $63 million. The funds were 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 $45 million and $47 million in outstanding principal and $3 million and $4 million in unamortized premium related to this debt at September 30, 2024 and 2023, respectively. Principal and interest totaling $5 million was paid in both the years ended September 30, 2024 and 2023.

Certificates of Obligation, Series 2020

In April 2020, the System issued the combination tax and revenue Certificates of Obligation, Series 2020 (2020 certificates of obligation) in the amount of $31 million. The 2020 certificates of obligation 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 are being 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. The System's financial statements reflect $21 million and $24 million in outstanding principal and $2 million in unamortized premium related to this debt at September 30, 2024 and 2023, respectively. Principal and interest totaling $4 million was paid in both the years ended September 30, 2024 and 2023.

Annual debt service requirements of the certificates of obligation to maturity are as follows as of September 30, 2024 (in thousands):

	Principal	Interest	Total
Years ending September 30			
2025	$ 5,970	$ 2,659	$ 8,629
2026	6,240	2,384	8,624
2027	6,520	2,080	8,600
2028	6,845	1,746	8,591
2029	7,190	1,395	8,585
2030-2034	23,675	3,427	27,102
2035-2036	8,845	357	9,202
Total	$ 65,285	$ 14,048	$ 79,333

Line of Credit

In 2022, the HMOs obtained a $115 million unsecured revolving line of credit and a $15 million swingline note with an expiration date of December 31, 2026. The line of credit and note will be used to pay claims and assist with liquidity. The interest rate on the line of credit and note are subject to change based on changes in independent indexes of which is the highest of either the Prime Rate in effect on such day, the Federal Funds Rate in effect on such day plus 0.50%, or the adjusted Term Secured Overnight Financing Rate (SOFR) for a one-month term in effect on such day plus 2.00%. At December 31, 2023 and 2022, the interest rate was 9% and 8%, respectively, per annum. As of December 31, 2023 and 2022, there were no amounts borrowed against the line of credit or amounts drawn down on the swingline note.

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 Board 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% 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%. 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, Human Resources Department, 4800 Fournace Place, Bellaire, Texas 77401.

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. Effective July 2007, the System enhanced the 401(k) Plan with an employer match up to 5.0% of the participant's compensation for eligible employees, which is 100.0% 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 $65 million and $56 million for the years ended September 30, 2024 and 2023, respectively. Total System contributions were $29 million and $27 million for the years ended September 30, 2024 and 2023, 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 the years ended September 30, 2024 and 2023, System contributions were reduced by $4 million and $2 million, respectively, from forfeited non-vested accounts.

Pension Plan

The System has a noncontributory, defined benefit pension plan (Plan). It is a single-employer, self-administered, trusteed plan for which a separate standalone financial report is issued. The Plan is administered by an Administrative Committee appointed by the Board, which is responsible for administering the Plan under the terms that are established. The Board 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% 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% 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 December 31, 2023 and 2022 (measurement dates), the following employees were covered by the benefit terms:

	December 31, 2023	**December 31, 2022**
Inactive employees or beneficiaries currently receiving benefits	3,647	3,395
Inactive employees entitled to but not yet receiving benefits	1,289	1,315
Active employees	1,549	1,860
	6,485	6,570

The Board 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 years ended September 30, 2024, and 2023, the System contributed $68 million, or 54%, and $60 million, or 39.9%, respectively, of covered payroll.

Net Pension Liability

The System's net pension liability was measured as of December 31, 2023 and 2022, 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:

	December 31, 2023	December 31, 2022
Valuation date	January 1, 2023	January 1, 2022
Measurement date	December 31, 2023	December 31, 2022
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)	5.75	5.75
Projected salary increases (ultimate rate)		
Initial rate	5.25	5.25
Ultimate rate	3.00	3.00
Mortality rates		
Healthy	Pub-2010 Total Dataset Mortality Table, with generational mortality improvements projected after year 2010 using Scale MP-2021	Pub-2010 Total Dataset Mortality Table, with generational mortality improvements projected after year 2010 using Scale MP-2021
Disabled	Pub-2010 Disability Mortality Table, with generational mortality improvements projected after year 2010 using Scale MP-2021	Pub-2010 Disability Mortality Table, with generational mortality improvements projected after year 2010 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table as of December 31, 2023:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity-large cap	26 %	7.05 %
Domestic equity-small/mid cap	4	7.62
International equity	25	7.72
Core fixed income	35	4.30
Hedge funds	5	6.13
Real estate funds	5	6.24
	100 %	

The discount rate used to measure the total pension liability was 5.75%, net of expenses, as of December 31, 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that System contributions would be made at rates equal to the actuarially 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, 2022	$ 1,165,437	$ 821,202	$ 344,235
Changes for the year			
Service cost	9,705	-	9,705
Interest	66,288	-	66,288
Differences between expected and actual experience	6,480	-	6,480
Contributions – employer	-	68,000	(68,000)
Net investment income	-	123,475	(123,475)
Benefit payments	(64,129)	(64,129)	-
Administrative expense	-	(205)	205
Net changes	18,344	127,141	(108,797)
Balances at December 31, 2023	$ 1,183,781	$ 948,343	$ 235,438

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balances at December 31, 2021	$ 1,121,564	$ 966,373	$ 155,191
Changes for the year			
Service cost	9,567	-	9,567
Interest	65,269	-	65,269
Differences between expected and actual experience	28,224	-	28,224
Changes of assumptions	(2,611)	-	(2,611)
Contributions – employer	-	60,000	(60,000)
Net investment income	-	(146,104)	146,104
Benefit payments	(56,576)	(56,576)	-
Administrative expense	-	(2,491)	2,491
Net changes	43,873	(145,171)	189,044
Balances at December 31, 2022	$ 1,165,437	$ 821,202	$ 344,235

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 5.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1.0 percentage point lower (4.75%) or 1.0 percentage point higher (6.75%) than the current rate (in thousands):

	1% Decrease	**Current Discount**	**1% Increase**
System's net pension liability	$ 372,453	$ 235,438	$ 119,708

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

For the years ended September 30, 2024 and 2023, the System recognized pension expense of and $32 million and $81 million, respectively. The System reported deferred outflows and deferred inflows of resources related to pensions from the following sources at September 30, 2024 and 2023 (in thousands):

	2024	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 2,352	$ -
Net difference between projected and actual earnings on pension plan investments	31,975	-
Employer contributions remitted subsequent to the measurement date	52,815	-
Total	$ 87,142	$ -

	2023	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes of assumptions	$ -	$ 1,192
Differences between expected and actual experience	12,885	-
Net difference between projected and actual earnings on pension plan investments	95,883	-
Employer contributions remitted subsequent to the measurement date	49,686	-
Total	$ 158,454	$ 1,192

At September 30, 2024 and 2023, the System reported approximately $53 million and $50 million, respectively, 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.

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):

Years ending September 30	
2025	$ 4,622
2026	19,343
2027	25,590
2028	(15,228)
2029	-
	$ 34,327

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 are not recorded in the accompanying statements of net position, are not subject to creditors. The Deferred Compensation Plan assets at September 30, 2024 and 2023 were approximately $178 million and $146 million, respectively.

Note 10. Other Postemployment Benefits (OPEB) Healthcare Plan

Plan Description and Benefits Provided

The OPEB is sponsored by the System, which provides certain healthcare 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. The System funds these benefits on a pay-as-you-go basis, meaning that the System will pay benefits as they come due. For the years ended September 30, 2024 and 2023, the System contributed $23 million and $21 million, respectively, to the Plan for current premiums and administrative costs. Plan members receiving benefits during both the years ended September 30, 2024 and 2023 contributed $5 million, or approximately 17.9% and 19.9%, respectively, of the total premiums through their required contribution. 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. In an amendment approved by the Board on January 25, 2018, employees hired after June 1, 2018 are no longer eligible to participate in the OPEB.

The following employees were covered by the benefit terms at September 30, 2024 and 2023 (measurement date):

	2024	2023
Inactive employee or beneficiaries currently receiving benefits	2,204	2,161
Active employees	4,848	5,259
	7,052	7,420

Total OPEB Liability

The System's total OPEB liability of $474 million and $451 million, was measured as of October 1, 2023 and 2022 for the years ended September 30, 2024 and 2023, respectively, was determined by an actuarial valuation as of those dates, and rolled forward to the measurement date of September 30, 2024 and 2023.

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 years included in the measurement, unless otherwise specified.

	2024	2023
Salary increases	3% to 5.25%	2.5%
Discount rate	4.06%	4.87%
Healthcare cost trend rates	7.00% for 2023, decreasing to 5.60% over 3 years and following the Getzen model thereafter	6.5% for 2022, decreasing to 5.20% over 3 years and following the Getzen model thereafter

The discount rate used to measure the total OPEB liability was 4.06%, which is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates for healthy pre-commencement and post-participants were based on PubG-2010 Headcount with generational mortality improvement projected using scale MP-2021. Rates for disabled participants were based on Pri-2012 Disability Mortality Table with generational mortality improvement projected using Scale MP-2021.

No formal actuarial experience studies have been performed.

Changes in the Total OPEB Liability (In Thousands)

	2024	2023
Total OPEB liability, beginning of year	$ 451,048	$ 462,528
Changes for the year		
Service cost	4,622	7,480
Interest	21,080	12,713
Experience loss	(33,817)	(8,328)
Change of assumptions	53,441	(2,542)
Benefit payments	(22,804)	(20,803)
Net changes	22,522	(11,480)
Total OPEB liability, end of year	$ 473,570	$ 451,048

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

The total OPEB liability has been calculated using a discount rate of 4.06%. The following table presents the total OPEB liability of the System using a discount rate 1.0% higher and 1.0% lower than the current discount rate (in thousands):

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	$ 534,454	$ 473,570	$ 422,635

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 healthcare cost trend rates that are 1.0% higher and 1.0% lower than the current healthcare cost trend rates (in thousands):

	1% Decrease	Current Healthcare Cost Trends Rate	1% Increase
Total OPEB Liability	$ 414,343	$ 473,570	$ 545,929

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

The System recognized OPEB expense of $26 million and $28 million during the years ended September 30, 2024 and 2023, respectively. The System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at September 30, 2024 and 2023 (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
2024		
Changes of assumptions	$ 89,771	$ 69,797
Differences between expected and actual experience	3,826	40,557
Total	$ 93,597	$ 110,354
2023		
Changes of assumptions	$ 71,249	$ 92,921
Differences between expected and actual experience	5,101	18,469
Total	$ 76,350	$ 111,390

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows at September 30, 2024 (in thousands):

Years ending September 30,	
2025	$ 1,341
2026	(4,263)
2027	(20,434)
2028	992
2029	2,803
Thereafter	2,804
	$ (16,757)

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 is as follows at September 30, 2024 and 2023.

	2024	2023
Medicaid	15%	22%
Medicare	51%	51%
Commercial	21%	15%
Self-pay patient	13%	12%
	100%	100%

Note 12. Commitments and Contingencies

At September 30, 2024 and 2023, 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* (TTCA). Under the TTCA, 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 September 30, 2024 and 2023 that may result in the assertion of additional claims.

The System provides medical care in the Harris County jail. Detainees can bring claims against the System under state or federal law for constitutional violations. The TTCA does not protect the System against these claims and such claims are not subject to formal limitations such as damages caps.

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 are as follows for the years ended September 30, 2024 and 2023 (in thousands):

	Beginning-of-Year Liability	Current-year Claims and Changes In Estimates	Claim Payments	End-of-Year Liability
Hospital professional and general liability				
2024	$ 2,242	$ 6,397	$ 4,865	$ 3,774
2023	$ 3,203	$ 973	$ 1,934	$ 2,242
Workers' compensation liability				
2024	$ 1,351	$ 1,720	$ 1,632	$ 1,439
2023	$ 2,291	$ 554	$ 1,494	$ 1,351
Employee healthcare benefits liability				
2024	$ 14,875	$ 169,355	$ 168,819	$ 15,411
2023	$ 12,689	$ 162,638	$ 160,452	$ 14,875

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 statement 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 September 30, 2024 and 2023, the System had commitments outstanding in the amount of $467 million and $64 million, respectively, related to improvements at existing facilities and $1 million and $4 million, respectively, related to information technology projects.

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. Lease Liabilities

The System, as lessee, leases equipment and office space, the terms of which expire in various years through 2033. Various leases include escalation in payments on the anniversary of the commencement of the lease at various intervals. The leases were measured using the System's incremental borrowing rate as of the lease commencement, which ranged from 1.10% to 6.54% based on the commencement date and term of the lease.

During the years ended September 30, 2024 and 2023, the System recognized $16 million and $10 million, respectively, of rental expense for variable payments not previously included in the measurement of the lease liability.

The following is a schedule by year of payments under the leases as of September 30, 2024 (in thousands):

Years Ending September 30,	Total to Be Paid	Principal	Interest
2025	$ 7,875	$ 6,599	$ 1,276
2026	7,021	5,967	1,054
2027	6,565	5,722	843
2028	12,073	11,003	1,070
2029	6,030	5,795	235
2030-2033	2,988	2,873	115
	$ 42,552	$ 37,959	$ 4,593

The System's lease liability activity consists of the following for the years ended September 30, 2024 and 2023 (in thousands):

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2024					
Lease liabilities	$ 42,481	$ 2,544	$ (7,066)	$ 37,959	$ 6,599
2023					
Lease liabilities	$ 48,566	$ 2,898	$ (8,983)	$ 42,481	$ 6,414

Note 14. GASB Statements Issued but Not Yet Effective

GASB Statement No. 101, *Compensated Absences* (GASB 101), updates the recognition and measurement guidance for compensated absences under a unified model. It defines compensated absences and requires that liabilities be recognized in financial statements prepared using the economic resources measurement focus for leave that has not been used and leave that has been used but not yet paid or settled. A liability for compensated absences should be accounted for and reported on a basis consistent with governmental fund accounting principles for financial statements prepared using the current financial resources measurement focus. GASB 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of GASB 101 are effective for fiscal years beginning after December 15, 2023 and all reporting periods thereafter. The changes adopted at transition to conform to the provisions of GASB 101, should be reported as a change in accounting principle in accordance with GASB Statement No 100, *Accounting Changes and Error Corrections*, including the related display and disclosure requirements.

Required Supplementary Information

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Schedule of Changes in the System's Net Pension Liability and Related Ratios (Unaudited)
December 31,
(Dollar Amounts in Thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	$ 9,705	$ 9,567	$ 8,601	$ 8,036	$ 8,057	$ 8,280	$ 6,803	$ 7,232	$ 7,795	$ 8,642
Interest	66,288	65,269	64,147	64,307	63,183	60,495	61,427	59,397	57,482	52,342
Difference between expected and actual experience	6,480	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	(64,129)	(56,576)	(53,264)	(50,184)	(47,367)	(44,712)	(42,563)	(40,178)	(44,023)	(34,444)
Net change in total pension liability	18,344	43,873	82,793	76,511	47,644	47,811	38,094	22,388	25,891	65,320
Total pension liability – beginning	1,165,437	1,121,564	1,038,771	962,260	914,616	866,805	828,711	806,323	780,432	715,112
Total pension liability – ending (a)	1,183,781	1,165,437	1,121,564	1,038,771	962,260	914,616	866,805	828,711	806,323	780,432
Plan fiduciary net position										
Contributions – employer	68,000	60,000	57,000	53,778	33,621	30,984	29,433	32,693	31,759	31,292
Net investment income	123,475	(146,104)	88,725	138,087	119,362	(35,426)	107,519	37,401	(4,891)	37,069
Benefit payments	(64,129)	(56,576)	(53,264)	(50,184)	(47,367)	(44,712)	(42,563)	(40,178)	(44,023)	(34,444)
Administrative expense	(205)	(2,491)	(2,725)	(2,366)	(3,010)	(2,442)	(2,478)	(232)	(2,389)	(2,302)
Net change in plan fiduciary net position	127,141	(145,171)	89,736	139,315	102,606	(51,596)	91,911	29,684	(19,544)	31,615
Plan fiduciary net position – beginning	821,202	966,373	876,637	737,322	634,716	686,312	594,401	564,717	584,261	552,646
Plan fiduciary net position – ending (b)	948,343	821,202	966,373	876,637	737,322	634,716	686,312	594,401	564,717	584,261
System's net pension liability – ending (a) – (b)	$ 235,438	$ 344,235	$ 155,191	$ 162,134	$ 224,938	$ 279,900	$ 180,493	$ 234,310	$ 241,606	$ 196,171
Plan fiduciary net position as a percentage of the total pension liability	80.11%	70.46%	86.16%	84.39%	76.62%	69.40%	79.18%	71.73%	70.04%	74.86%
Covered payroll	$ 126,784	$ 150,963	$ 148,657	$ 156,479	$ 163,835	$ 169,885	$ 173,272	$ 182,060	$ 197,360	$ 210,728
System's net pension liability as a percentage of covered payroll	185.70%	228.03%	104.40%	103.61%	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 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 and disability tables based on the 2022 Experience Study.

Changes of assumptions – In 2023, there were no changes in plan provisions, actuarial assumptions, or actuarial methods.

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Schedule of System Pension Contributions (Unaudited)
September 30,
(Dollar Amounts in Thousands)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 38,610	$ 38,858	$ 36,225	$ 36,056	$ 33,621	$ 30,984	$ 29,433	$ 32,693	$ 31,759	$ 31,292
Contributions in relation to the actuarially determined contribution	68,000	60,000	57,000	53,778	33,621	30,984	29,433	32,693	31,759	31,292
Contribution deficiency (excess)	$ (29,390)	$ (21,142)	$ (20,775)	$ (17,722)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 126,784	$ 150,518	$ 148,657	$ 156,479	$ 163,835	$ 169,885	$ 173,272	$ 182,060	$ 197,360	$ 210,728
Contributions as a percentage of covered payroll	53.63%	39.86%	38.34%	34.37%	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, five-year smoothing
Inflation	2.5%
Salary increases	5.25% initial rate 3.0% ultimate rate
Investment rate of return	5.75%, net of pension plan investment expense, including inflation
Retirement age	Various – Expected retirement ages are adjusted to more closely reflect actual experience
Mortality	Pub-2010 Mortality Tables, with generational mortality improvements projected after year 2010 using Scale MP-2021

Harris County Hospital District d/b/a Harris Health
A Component Unit of Harris County, Texas
Schedule of Changes in the System's Total OPEB Liability and Related Ratios (Unaudited)
September 30,
(Dollar Amounts in Thousands)

	2024	2023	2022	2021	2020	2019
Total OPEB liability						
Service cost	$ 4,622	$ 7,480	$ 13,425	$ 9,895	$ 9,424	$ 9,746
Interest	21,080	12,713	7,067	11,990	15,195	13,820
Experience gains	(33,817)	(8,328)	7,652	(3,056)	(30,004)	-
Changes of assumptions	53,441	(2,542)	(136,205)	100,078	63,631	-
Benefit payments	(22,804)	(20,803)	(18,017)	(16,731)	(16,137)	(20,173)
Net change in total OPEB liability	22,522	(11,480)	(126,078)	102,176	42,109	3,393
Total OPEB liability – beginning	451,048	462,528	588,606	486,430	444,321	440,928
Total OPEB liability – ending	$ 473,570	$ 451,048	$ 462,528	$ 588,606	$ 486,430	$ 444,321
Covered employee payroll	$ 413,101	$ 417,272	$ 432,158	$ 449,724	$ 514,871	$ 491,810
System's total OPEB liability as a percentage of covered payroll	114.64%	108.09%	107.03%	130.88%	94.48%	90.34%

Notes to Schedule

This schedule is presented as of the measurement date.

In an amendment approved by the Board on January 25, 2018, employees hired after June 1, 2018 are no longer eligible to participate in the OPEB.

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

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 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 seven years to 7.50% grading uniformly to 6.75% over three years and following the Getzen model thereafter.

Changes of assumptions – In 2021, amounts reported as changes of assumptions resulted primarily from changing the mortality improvement assumption to the Improvement Scale MP-2020. Additionally, the discount rate was changed to 1.21% and the medical trend assumption was updated from 7.50% grading uniformly to 6.75% over three years to 6.50% grading uniformly to 5.75% over three years and following the Getzen model thereafter.

Changes of assumptions – In 2022, amounts reported as changes of assumptions resulted primarily from changing the mortality improvement assumption to the Improvement Scale MP-2021. Additionally, the discount rate was changed to 2.83% and the medical trend assumption was updated from 6.50% grading uniformly to 5.75% over three years to 6.25% grading uniformly to 5.50% over three years and following the Getzen model thereafter.

Changes of assumptions – In 2023, amounts reported as changes of assumptions resulted primarily from a change in the discount rate to 4.87% and the medical trend assumption was updated to 6.50% grading uniformly to 5.20% over three years and following the Getzen model thereafter. Additionally, no further migration of existing retirees to the Plan is assumed (prior assumption was 50%).

Changes of assumptions – In 2024, amounts reported as changes of assumptions resulted primarily from a change in the discount rate to 4.06% and the medical trend assumption was updated to 7.00% grading uniformly to 5.60% over three years and following the Getzen model thereafter. In addition, mortality, termination, retirement, and salary scale rates were updated to be consistent with the 2022 pension plan experience study.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.