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

Independent Auditor's Report and Financial Statements

September 30, 2022

Harris County Hospital District
d/b/a Harris Health System
A Component Unit of Harris County, Texas
September 30, 2022

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Independent Auditor's Report

Board of Trustees
Harris County Hospital District
d/b/a Harris Health System
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 (the System), a component unit of Harris County, Texas, as of and for the seven-months ended September 30, 2022 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 audit 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, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the seven-months 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 5.0 percent of total assets, 11.1 percent of net position, and 0.2 percent of revenues of the aggregate discretely presented component units as of and for the seven-months ended September 30, 2022. 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, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit 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.

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Emphasis of Matter

As discussed in *Note 2* to the financial statements, on March 1, 2022, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

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 twelve 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, LLP

Dallas, Texas
February 9, 2023

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

Statement of Net Position

September 30, 2022
(In thousands)

Assets and Deferred Outflows of Resources	Harris Health System	Component Units: Foundation February 28, 2022	Component Units: Community Health Choice, Inc. December 31, 2021	Component Units: Community Health Choice Texas, Inc. December 31, 2021
Current Assets				
Cash and cash equivalents	$ 565,426	$ 165	$ 44,217	$ 383,980
Short-term investments	257,382	-	-	-
Accounts receivable – net of allowance for uncollectible accounts of $44,138	114,899	-	-	-
Inventories	10,669	-	-	-
Medicaid supplemental programs receivable	481,352	-	-	-
Prepaid expenses and other current assets	29,409	3,899	228,480	82,305
Estimated third-party payor settlements	56,571	-	-	-
Due from Community Health Choice, Inc.	9,465	-	-	63,833
Restricted cash and cash equivalents - Local Provider Participation Fund	71,007	-	-	-
Current portion of assets limited as to use or restricted	7,904	-	-	-
Total current assets	1,604,084	4,064	272,697	530,118
Assets Limited as to Use or Restricted – Net of Current Portion				
Debt service	25,790	-	-	-
Capital gift proceeds	45,341	-	-	-
Series 2020 capital asset fund	6,196	-	-	-
Other	1,048	33,677	3,325	100
Total assets limited as to use or restricted – net	78,375	33,677	3,325	100

See notes to financial statements

Harris County Hospital District
d/b/a Harris Health System
A Component Unit of Harris County, Texas
Statement of Net Position (Continued)
September 30, 2022
(In thousands)

Assets and Deferred Outflows of Resources (Continued)	Harris Health System	Component Units: Foundation February 28, 2022	Component Units: Community Health Choice, Inc. December 31, 2021	Component Units: Community Health Choice Texas, Inc. December 31, 2021
Capital Assets				
Land and improvements	$ 47,449	$ -	$ -	$ -
Buildings and fixed equipment	729,395	-	-	-
Major movable equipment	439,439	-	-	-
Less accumulated depreciation	(801,364)	-	-	-
Total depreciable capital assets – net	414,919	-	-	-
Construction in progress	171,764	-	-	-
Capital assets – net	586,683	-	-	-
Lease Assets, Net	47,888	-	-	-
Other Assets				
Ad valorem taxes receivable – net of current portion and allowance for uncollectible taxes of $49,748	3,140	-	-	-
Long-term investments	-	-	-	6,223
Other assets	8,040	4,874	-	-
Total other assets	11,180	4,874	-	6,223
Total assets	2,328,210	42,615	276,022	536,441
Deferred Outflows of Resources				
Derivative financial instrument	385	-	-	-
Resources related to pension	72,781	-	-	-
Resources related to OPEB	115,371	-	-	-
Loss on refunding revenue bonds	7,180	-	-	-
Total deferred outflows of resources	195,717	-	-	-
Total assets and deferred outflows of resources	$ 2,523,927	$ 42,615	$ 276,022	$ 536,441

See notes to financial statements

Harris County Hospital District
d/b/a Harris Health System
A Component Unit of Harris County, Texas
Statement of Net Position (Continued)
September 30, 2022
(In thousands)

Liabilities, Deferred Inflows of Resources and Net Position	Harris Health System	Component Units: Foundation February 28, 2022	Component Units: Community Health Choice, Inc. December 31, 2021	Component Units: Community Health Choice Texas, Inc. December 31, 2021
Current Liabilities				
Accounts payable and accrued liabilities	$ 149,543	$ 145	$ 19,889	$ 14,351
Interest payable	1,076	-	-	-
Employee compensation and related benefit liabilities	49,608	-	-	-
Postemployment health benefit liability	17,057	-	-	-
Compensated absences	57,781	-	-	-
Intergovernmental transfer obligation	84,885	-	-	-
Medical claims liability	-	-	73,503	228,466
Premium deficiency reserve	-	-	13,226	843
Experience rebate payable	-	-	-	33,797
Liabilities related to the Affordable Care Act	-	-	11,320	-
Due to Harris Health System	-	-	12,659	-
Due to Community Health Choice Texas, Inc.	-	-	63,833	-
Estimated third-party payor settlements	13,537	-	-	-
Current portion of long-term debt	12,495	-	-	-
Current portion of lease liabilities	8,231	-	-	-
Total current liabilities	394,213	145	194,430	277,457
Other Long-Term Liabilities				
Postemployment health benefit liability	445,471	-	-	-
Net pension liability	155,191	-	-	-
Lease liabilities	40,335	-	-	-
Borrowing payable	7,762	-	-	-
Derivative liability	385	-	-	-
Long-Term Debt				
Series 2010 refunding revenue bonds	77,325	-	-	-
Series 2016 refunding revenue bonds - including premium of $9,834	144,784	-	-	-
Series 2016 certificates of obligation - including premium of $4,132	51,537	-	-	-
Series 2020 certificates of obligation - including premium of $3,222	26,787	-	-	-
Total liabilities	1,343,790	145	194,430	277,457

See notes to financial statements

Harris County Hospital District
d/b/a Harris Health System
A Component Unit of Harris County, Texas
Statement of Net Position (Continued)
September 30, 2022
(In thousands)

Liabilities, Deferred Inflows of Resources and Net Position (Continued)	Harris Health System	Component Units: Foundation February 28, 2022	Component Units: Community Health Choice, Inc. December 31, 2021	Component Units: Community Health Choice Texas, Inc. December 31, 2021
Deferred Inflows of Resources				
Resources related to pension	88,153	-	-	-
Resources related to OPEB	130,542	-	-	-
Total deferred inflows of resources	218,695	-	-	-
Net Position				
Net investment in capital assets	263,716	-	-	-
Restricted for debt service	33,553	-	-	-
Restricted for purchase of capital assets	45,341	-	-	-
Restricted – other	930	38,110	3,325	100
Unrestricted	617,902	4,360	78,267	258,884
Total net position	961,442	42,470	81,592	258,984
Total liabilities, deferred inflows of resources and net position	$ 2,523,927	$ 42,615	$ 276,022	$ 536,441

Harris County Hospital District
d/b/a Harris Health System
A Component Unit of Harris County, Texas
Statement of Revenues, Expenses and Changes in Net Position
Seven-months Ended September 30, 2022
(In thousands)

		Component Units		
	Harris Health System	Foundation February 28, 2022	Community Health Choice, Inc. December 31, 2021	Community Health Choice Texas, Inc. December 31, 2021
Operating Revenues				
Net patient service revenue	$ 396,517	$ -	$ -	$ -
Medicaid supplemental programs revenue	583,321	-	-	-
Premium revenue	-	-	794,445	1,381,057
Other operating revenues	61,422	5,257	494	-
Total operating revenues	1,041,260	5,257	794,939	1,381,057
Operating Expenses				
Salaries, wages, and benefits	631,301	497	15,006	59,807
Pharmaceuticals and supplies	162,785	1	2,241	8,223
Physician services	242,500	-	-	-
Medical claims expense	-	-	728,983	1,209,353
Other purchased services	151,623	4,194	63,153	60,568
Depreciation and amortization	42,402	-	-	-
Total operating expenses	1,230,611	4,692	809,383	1,337,953
Operating Income (Loss)	(189,351)	565	(14,444)	43,104
Nonoperating Revenues (Expenses)				
Ad valorem tax revenues – net	2,237	-	-	-
Tobacco settlement revenues	16,745	-	-	-
Investment income	8,990	7,843	6	88
Interest expense	(6,938)	-	(1,154)	-
Capital grants to Harris Health System	-	(45,900)	-	-
Provider Relief Fund revenue	20,893	-	-	-
Other, net	(193)	(182)	-	1,154
Total nonoperating revenues (expenses) – net	41,734	(38,239)	(1,148)	1,242
Changes in Net Position	(147,617)	(37,674)	(15,592)	44,346
Net Position – Beginning of Period	1,109,059	80,144	97,184	214,638
Net Position – End of Period	$ 961,442	$ 42,470	$ 81,592	$ 258,984

See notes to financial statements

Harris County Hospital District
d/b/a Harris Health System
A Component Unit of Harris County, Texas
Statement of Cash Flows
Seven-months Ended September 30, 2022
(In thousands)

Cash Flows from Operating Activities	
Receipts from and on behalf of patients	$ 391,794
Receipts from Medicaid supplemental programs	359,389
Receipts from incentive programs and grants	4,786
Receipts from other revenues	60,325
Payments to suppliers	(549,437)
Payments to employees and for employee benefits	(677,833)
Net cash used in operating activities	(410,976)
Cash Flows from Noncapital Financing Activities	
Contributions and other – net	7
Ad valorem taxes – net	25,822
Receipt of Provider Relief Funds	20,453
Interest paid	(475)
Tobacco settlement revenues	16,745
Net cash provided by noncapital financing activities	62,552
Cash Flows from Capital and Related Financing Activities	
Acquisitions and construction of capital assets	(61,959)
Interest paid on long-term debt and leases payable	(7,078)
Principal paid on long-term debt and leases payable	(6,645)
Net cash used in capital and related financing activities	(75,682)
Cash Flows from Investing Activities	
Receipts of investment income – including realized gains and losses	6,818
Decrease in cash equivalents included in assets limited as to use or restricted	59,077
Purchases of investment securities	(550,574)
Proceeds from sale and maturities of investment securities	765,360
Net cash provided by investing activities	280,681
Net Decrease in Cash and Cash Equivalents	(143,425)
Cash and Cash Equivalents - Beginning of Period	708,851
Cash and Cash Equivalents - End of Period	$ 565,426

Harris County Hospital District
d/b/a Harris Health System
A Component Unit of Harris County, Texas
Statement of Cash Flows (Continued)
Seven-months Ended September 30, 2022
(In thousands)

Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	$ (189,351)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	42,402
Changes in operating assets and liabilities:	
Increase in accounts receivable	12,754
Increase in inventories	230
Decrease in Medicaid supplemental program receivable	(222,289)
Increase in prepaid expenses and other assets	3,243
Decrease in estimated third-party payor settlements	(18,033)
Increase in accounts payable and accrued liabilities	7,705
Decrease in employee compensation and related benefit liabilities	(2,543)
Increase in compensated absences	2,093
Decrease in Medicaid supplemental programs revenue received in advance	(1,643)
Decrease in estimated third-party payor settlements	(30)
Decrease in deferred outflows of resources - pension	(35,053)
Decrease in deferred outflows of resources - OPEB	(10,461)
Total adjustments	(221,625)
Net cash used in operating activities	$ (410,976)
Supplemental Disclosures of Noncash Operating, Financing and Investing Activities	
Unrealized loss on investments	$ 100
Amounts related to acquisition of capital assets in accounts payable and accrued liabilities	30,745
Lease obligation incurred for lease assets	4,863

Note 1: Organization and Mission

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

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

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

The Harris County Hospital District Foundation (the Foundation), was organized in 1993. The Foundation is a nonprofit, tax-exempt corporation organized under Section 501(c)(3) of the Internal Revenue Code whose primary purpose is to raise funds to support the operations and activities of the System. Although the System does not control the timing or amount of receipts from the Foundation, the majority of resources (or income thereon) that the Foundation holds and invests is restricted to the activities of the System by the donor. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the System, the Foundation is considered a component unit of the System and is included in the System's financial statements. The Foundation is reported as a discretely presented component unit of the System. Financial reports for the Foundation can be obtained from the Harris County Hospital District Foundation, 4800 Fournace Place, Bellaire, Texas 77401. Attention: Jeffrey Baker, Executive Director (Jeffrey.Baker@harrishealth.org).

Community Health Choice, Inc. and Community Health Choice Texas, Inc. (the HMOs) are Texas not-for-profit corporations organized under Section 501(c)(4) of the Internal Revenue Code to operate as health maintenance organizations. Community Health Choice, Inc. was incorporated on May 8, 1996, licensed by the Texas Department of Insurance on February 27, 1997, and as of December 31, 2021, offered three Medicaid insurance products as well as individual health insurance on the Health Insurance Marketplace. Community Health Choice Texas, Inc. was formed in August 2016 to allow the Health Insurance Marketplace and the Medicaid insurance

products to be provided and served by separate corporations. Community Health Choice, Inc. is the Health Insurance Marketplace and commercial HMO with 85,005 enrollees as of December 31, 2021, and Community Health Choice Texas, Inc. is the Medicaid Managed Care HMO with 369,520 enrollees as of December 31, 2021. The HMOs are reported as discretely presented component units of the System since the Board of Directors are appointed by the System's Board of Trustees and the System can impose its will on the HMOs. The differences in amounts due to the System and due from the HMOs in the accompanying statement 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@CommunityHealthChoice.org).

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

Effective March 1, 2022, the System changed its reporting year end from February 28 to September 30. The accompanying statement of revenues, expenses and changes in net position of the System reflects its activities for the seven-month period ended September 30, 2022. The financial statements of the Foundation are as of and for the year ended February 28, 2022. The financial statements of the HMOs are as of and for the year ended December 31, 2021. These periods 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 are prepared on the accrual basis of accounting.

Method of Accounting

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

In accordance with GASB Statement No. 34*, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the System's financial statements include the 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 and lease 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, construction or improvement of the capital assets.
- "Restricted" consists of restricted assets reduced by liabilities and deferred inflows of resources related to the assets and are primarily for debt service 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 the GASB. The Foundation's financial statement formats were modified to make them compatible with the System's financial statement formats.

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

Reporting Entity

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

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

The System provides certain administrative services to the HMOs including employment of all individuals who perform the day-to-day requirements of the business functions of the HMOs. The HMOs reimburse the System for such salaries, wages and benefits and these costs are reflected as expenses of the HMOs. An additional fee for indirect costs approximating $1.7 million for the seven-month period ended September 30, 2022 is included as a revenue and expense in the System’s financial statements. The System pays a portion of the premiums for enrollees to Community Health Choice, Inc. for insurance coverage under the insurance plans that are offered as part of the HMO’s mission. Premiums paid on behalf of enrollees were $14 million for the seven-month period ended September 30, 2022, which is included as expense and revenue in the System’s financial statements.

The System supports the Foundation with payments for goods and services of approximately $322 thousand for the seven-month period ended September 30, 2022, 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 $662 thousand for the seven-month period ended September 30, 2022.

Cash, Cash Equivalents and Short-term Investments

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

The System's and HMO's cash, cash equivalents and short-term investments are invested in fully collateralized time deposits, commercial paper, money market mutual funds, 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 is required by the Board of Trustees of the System. The Foundation's investments, however, are not subject to these laws.

Investments are reported at fair value, with realized and unrealized gains and losses included in investment income in the statement 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 statement 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 thousand of payments over the lease term.

Capital and Lease Asset Impairment

The System evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease 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 seven-month period ended September 30, 2022.

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 50.0 percent or at the time of termination are payable at 75.0 percent. Changes in the System's liability for compensated absences for the seven-month period ended September 30, 2022 are as follows (in thousands).

Beginning of Period Liability	Claims and Change in Estimates	Claim Payments	End of Period Liability
$ 55,688	$ 49,797	$ 47,704	$ 57,781

Classification of Revenues and Expenses

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

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported as the estimated net realized amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors. In recognizing net patient service revenue, estimates are used in recording allowances for contractual adjustments and uncollectible accounts. Allowances for uncollectible accounts are estimated using historical experience, current trend information, aged account balances and a collectability analysis. The System's financial assistance program for uninsured patients classified as self-pay determines expected payments based on the Medicare allowable reimbursement. Charges in excess of the expected payment are reflected as an administrative uninsured discount. The allowance for uncollectible accounts was estimated at $44 million as of September 30, 2022. The System provides services under contract to patients covered under the Medicare and Medicaid programs. Net revenues from these programs are included in patient service revenue at estimated reimbursement based on customary billing charges, predetermined rates of reimbursement, plus certain adjustments. The amounts due to or from these programs are subject to final review and settlement by the program administrative contractor.

Retroactive adjustments under third-party reimbursement agreements are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, it is reasonably possible that these estimates could differ from actual settlements and thus change in the near term by material amounts.

Charity Care Policy

The System accepts all Harris County residents as patients regardless of their ability to pay. Harris County residents may qualify for partial financial assistance, on a sliding scale. The extent to which a resident will be financially responsible is determined based upon pre-established financial criteria, which utilize family income and size as it relates to the federal poverty guidelines set by the U.S. Department of Health and Human Services. Charity services are defined as those services for which no payment is anticipated. These amounts are not reported as revenue. The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under the System's Financial Assistance program. The 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 seven-month period ended September 30, 2022 (in thousands):

Charges foregone, based on established rates	$	620,538
Cost of foregone charges, estimated		456,830

Premium Revenue

Premium revenue is recognized as revenue by the HMOs during the coverage period of the subscriber agreement. For the primary Medicaid business, notification is received throughout the year of any new, removed or revised members and the date of eligibility for coverage. The date of notification may be subsequent to the date of eligibility. The HMOs believe premium revenue has been appropriately recognized for the year ended December 31, 2021, the HMOs fiscal year-end.

Medical Claims Expense

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

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

Contracts are evaluated to determine if it is probable that a loss will be incurred and a premium deficiency reserve is recognized when it is probable that expected future claims, including maintenance costs, will exceed existing reserves plus anticipated future premiums and reinsurance recoveries, without consideration of anticipated investment income.

For purposes of determining premium deficiency reserves, contracts are grouped in a manner consistent with the method of acquiring, servicing and measuring the profitability of such contracts. As of December 31, 2021, the HMOs fiscal year-end, the HMOs recognized premium deficiency reserve for the Health Insurance Marketplace business of $14 million. As of December 31, 2021, the HMOs recorded an experience rebate liability of $34 million.

Changes in the HMO's aggregate liability for medical claims in for the year ended December 31, 2021 is as follows (in thousands):

Liability at December 31, 2020	Medical Claims and Change in Estimates	Claim Payments	Liability at December 31, 2021
$ 208,406	$ 1,943,317	$ 1,849,754	$ 301,969

In the fiscal year ended December 31, 2021, the HMOs in aggregate paid $1,673 million in claims related to the current fiscal year and $177 million in claims related to the prior fiscal year.

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

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

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

The HMOs recognize premiums received from its exchange members and APTC received from HHS as premium revenue when earned and CSR offsets health care costs when incurred. For 2021, the HMOs recognized $435 million and $11 million of APTC and CSR, respectively.

The risk adjustment data validation program was implemented to ensure the integrity and accuracy of risk adjustment transfer amounts. Prior year submission data is audited and adjustments to the receivable or payable transfer amounts are made.

Subject to this program, the HMOs have recorded a liability of approximately $11 million at December 31, 2021, which is included as liabilities related to the Affordable Care Act within current liabilities in the accompanying statement of net position.

The ACA established a permanent risk adjustment program which adjusts the premiums that commercial, individual and small group health insurance issuers receive based on the demographic factors and health status of each member as derived from current year medical diagnosis as reported throughout the year. This program transfers funds from lower risk plans to higher risk plans with similar plans in the same state. The risk adjustment program is applicable to commercial, individual and small group health plans (except certain exempt and grandfathered plans) operating both inside and outside of the exchange. A risk score is determined for the entire subject population for each market in each state. Plans with an average risk score below the state average will pay into a pool and health insurance issuers with an average risk score that is greater than the state average risk score will receive money from that pool. The HMOs issues individual plans and is therefore subject to the risk adjustment. At December 31, 2021, the HMOs recorded a risk adjustment receivable of $169 million, which is included in prepaid expenses and other current assets in the accompanying statement of net position.

Ad Valorem Tax Revenues – Net

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

Revenue from the calendar year 2021 tax levy was recognized by the System in the fiscal year ended February 28, 2022. Revenue from the calendar year 2022 tax levy will be recognized by the System in the fiscal year ending September 30, 2023 as this is the period for which the taxes were levied. Revenue recognized in the seven-month period ended September 30, 2022 represents the difference between estimated ad valorem taxes receivable due at February 28, 2022 and actual amounts collected subsequent to that date.

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 health care costs. Under the program guidelines, the System is free to use the funds in either the immediate or future periods without restriction. The System recognizes all funds received from the settlement as nonoperating revenue in the period funds are allocated.

Pensions

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

Postemployment Benefits Other Than Pensions

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Change in Accounting Principle

On March 1, 2022, the System adopted GASB Statement No. 87, *Leases*, (GASB 87) using a retrospective method adoption to all leases in place and not yet completed at the beginning of the earliest period presented, which was March 1, 2022. The statement requires lessees to recognize a lease liability, measured at the present value of payments expected to be made during the lease term, and an intangible right-to-use lease asset. Adoption of GASB 87 had no effect on beginning net position at March 1, 2022.

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, 2018.

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, 2017.

In conjunction with the change in fiscal year end, the System also changed its Medicare and Medicaid reporting year end to September 30, effective for the seven-month period ended September 30, 2022.

Cash received from the Medicare program accounted for approximately 47.7 percent of the System's total cash collections for net patient service revenue for the seven-month period ended September 30, 2022. Cash received from the Medicaid program (including managed Medicaid) accounted for approximately 25.1 percent of the System's total cash collections for net patient service revenue for the seven-month period ended September 30, 2022. Cash received from the Medicaid program in the seven-month period ended September 30, 2022 was impacted by the approval of the Comprehensive Hospital Rate Increase Program (CHIRP) in March 2022, which was retroactive to September 1, 2021. See further discussion of CHIRP in *Note 4*.

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

Note 4: Medicaid Supplemental Programs

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

The Upper Payment Limit (UPL) program was created in May 2002 with an effective date of July 2001. The UPL program used federal matching funds to raise state Medicaid reimbursement rates to 100.0 percent of equivalent Medicare rates for certain public hospital systems. In December 2011, Texas received federal approval to redirect the funding it would have received under the UPL program. The 1115 Waiver allows the state to expand Medicaid managed care, improve Medicaid services and reward performance. Federal funding that would have been received by hospitals if managed care was not expanded is to be preserved. The UPL program was replaced with two new pools of funding, the uncompensated care (UC) pool and the delivery system reform incentive payment (DSRIP) pool. The UC pool directs more funding to hospitals that serve large numbers of uninsured patients and the DSRIP pool provides incentive payments for health care providers based on improvements in quality of care.

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 transitions participating hospitals away from the DSRIP program. One of the new directed payment programs is CHIRP, which added a quality component to the existing Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC directed 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 also provides for a rate increase similar to UHRIP but also provides for a rate enhancement above the UHRIP rate, based upon a percentage of estimated average commercial reimbursement. Participating hospitals may opt into this second component. The UHRIP program transitioned to the CHIRP program on September 1, 2021. CHIRP will require annual approval by CMS and has been approved through August 31, 2023. The System also participates in other Medicaid Supplemental Payment Programs including the Network Access Improvement Program (NAIP), and the Graduate Medical Education (GME) program.

During the seven-month period ended September 30, 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 historically participating in the DSRIP program and provides additional funding to hospitals to assist in offsetting the costs hospitals incur while providing Medicaid services. HARP revenue for the 2022 program revenue was recognized in the seven-month period ended September 30, 2022 due to the timing of program approval.

The System recognizes all funds received under these programs as operating revenues in the period applicable to the funds. Any amounts related to that year that are not received as of fiscal year-end are recorded as receivables and reflected in other current assets in the accompanying statement of net position. These receivables can be subject to adjustments that are reflected in the period they become known. The System recorded no material adjustments for the period ended September 30, 2022 for prior years' programs. The System's financial statements reflect receivables of $481 million at September 30, 2022 related to the 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 statement of revenues, expenses and changes in net position. As of September 30, 2022, the System held $71 million in LPPF funds which is reported as restricted cash in the statement of net position. At September 30, 2022 the System had $85 million in intergovernmental transfer liability of which $71 million 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 percent of the greatest debt service requirement scheduled to occur); unspent bond proceeds; funds restricted by donors; or funds designated by the board for other uses. Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at the time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost.

The System also invests in Texas CLASS and Lone Star Investment pools (collectively, the 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* 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. Both investment pools are rated AAAm 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, 2022.

The components of assets limited as to use or restricted at fair value at September 30, 2022 are as follows (in thousands):

Description of Assets	Total	Restricted Debt Service	Series 2020 Capital Asset Fund	Restricted For Capital Asset Purchases	Restricted Cash and Cash Equivalents LPPF	Other
Money market mutual funds	$ 71,612	$ 260	$ 162	$ 14	$ 71,007	$ 169
Investment pools	52,307	67	6,034	45,327	-	879
United States Treasury obligations	33,225	33,225	-	-	-	-
Cash	142	-	-	-	-	142
	157,286	33,552	6,196	45,341	71,007	1,190
Less funds required for current liabilities	(78,911)	(7,762)	-	-	(71,007)	(142)
	$ 78,375	$ 25,790	$ 6,196	$ 45,341	$ -	$ 1,048

Foundation – Assets limited as to use of $34 million at February 28, 2022 are restricted subject to donor-imposed stipulations that will be met by actions of the Foundation or the passage of time.

HMOs – Assets limited as to use aggregating $3 million at December 31, 2021, are restricted as to use and are pledged to satisfy insolvency and other reserves, as required by the Texas Department of Insurance.

Note 6: Investment Risk

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

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

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

The System's investment policy is to be reviewed and approved annually by the Board of Trustees and the Commissioners' Court. The investment policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy.

Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

The System's investment policy establishes minimum acceptable credit ratings for certain investment instruments. Securities of states, agencies, counties, cities and other political subdivisions 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 Act, 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 percent of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer. Concentration by issuer for other investment instruments is not specifically addressed in the investment policy. However, the policy does specify that acceptable investment instruments must have high-quality credit ratings.

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

The following table indicates the fair value and maturity amount of the System's cash equivalents, assets limited as to use and investments as of September 30, 2022, summarized by security type, as well as the percentage of total portfolio, the credit rating of the investment, and the modified duration in years for each summarized security type (in thousands).

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Moody's
Investment Pools					
Texas CLASS - Pool (Corporate)	$ 146,985	23.27 %	$ 146,985	0.003	AAAm
Lone Star - Pool (Corporate)	117,908	18.66	117,908	0.003	AAAm
United States Treasury obligations	142,391	22.54	143,200	0.247	Aaa/AA+
Federal Agency	49,868	7.89	50,000	0.555	Aaa/AA+
Commercial paper					
Mitsubishi UFG Financial Group	58,894	9.32	60,000	0.444	A-1/P-1
Santander BK UK PLC	39,455	6.25	40,000	0.342	A-1/P-1
Money market mutual funds	76,264	12.07	76,264	0.003	AAAm/Aaa-mf
Total cash equivalents, assets limited as to use and investments	$ 631,765	100.00 %	$ 634,357	0.164	

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 percent of the portfolio, excluding those investments held for future capital expenditures, debt service payments, bond fund reserve accounts, and capitalized interest funds, may be invested beyond 36 months. Additionally, at least 15.0 percent of the portfolio, with the previous exceptions, is invested in overnight instruments or in marketable securities that can be sold to raise cash within one day's notice. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed three years. The System is also prohibited from investing more than 25.0 percent of the overall portfolio in the time deposits, including certificates of deposit, of a single issuer. As of September 30, 2022, 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 Community Health Choice, Inc. as of December 31, 2021, 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
Certificates of deposit	$ 3,325	6.99 %	$ 3,325	0.429	AAA
Money market mutual funds	44,217	93.01	44,217	0.003	AAA
	$ 47,542	100.00 %	$ 47,542	0.216	

The following table indicates the fair value and maturity amount of the cash equivalents, assets limited as to use and investments of Community Health Choice Texas, Inc. as of December 31, 2021, 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
Municipal bonds	$ 6,223	1.59 %	$ 6,107	0.332	AAA/AA+/Aaa/AA
Certificates of deposit	100	0.03	100	0.132	AAA
Money market mutual funds	383,980	98.38	383,980	0.003	AAA
	$ 390,303	100.00 %	$ 390,187	0.156	

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, 2022 (in thousands).

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Commercial paper	$ -	$ 98,349	$ -	$ 98,349
United States Treasury obligations	142,391	-	-	142,391
Federal Agency notes	49,868	-	-	49,868
Money market mutual funds	76,264	-	-	76,264
Total cash equivalents, assets limited as to use and investments by fair value	$ 268,523	$ 98,349	$ -	$ 366,872
Liabilities				
Derivative financial instrument	$ -	$ 385	$ -	$ 385

The following is a summary of the hierarchy of the fair value of investments and cash equivalents of Community Health Choice, Inc. as of December 31, 2021 (in thousands):

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Money market mutual funds	$ 44,217	$ -	$ -	$ 44,217
Total investments and cash equivalents by fair value level	$ 44,217	$ -	$ -	$ 44,217

The following is a summary of the hierarchy of the fair value of investments and cash equivalents of Community Health Choice Texas, Inc. as of December 31, 2021 (in thousands):

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Municipal bonds	$ -	$ 6,223	$ -	$ 6,223
Money market mutual funds	383,980	-	-	383,980
Total investments and cash equivalents by fair value level	$ 383,980	$ 6,223	$ -	$ 390,203

Note 7: Capital and Lease Assets

The System's capital assets activity for the seven-month period ended September 30, 2022, consists of the following (in thousands):

	2022			
	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Land and improvements	$ 47,316	$ 133	$ -	$ 47,449
Buildings and fixed equipment	728,992	479	(76)	729,395
Major movable equipment	446,786	20,531	(27,878)	439,439
Total historical cost	1,223,094	21,143	(27,954)	1,216,283
Less accumulated depreciation:				
Land and improvements	(15,989)	(519)	-	(16,508)
Buildings and fixed equipment	(439,675)	(15,136)	64	(454,747)
Major moveable equipment	(336,890)	(20,779)	27,560	(330,109)
Total accumulated depreciation	(792,554)	(36,434)	27,624	(801,364)
Construction in progress	129,751	42,013	-	171,764
Capital assets - net	$ 560,291	$ 26,722	$ (330)	$ 586,683

The System's lease assets activity for the seven-month period ended September 30, 2022, consists of the following (in thousands):

	2022			
	Beginning Balance (As Restated)	Additions/ Transfers	Retirements	Ending Balance
Buildings	$ 43,183	$ 2,704	$ -	$ 45,887
Equipment	5,811	2,159	(11)	7,959
Total lease assets	48,994	4,863	(11)	53,846
Less accumulated amortization:				
Buildings	-	(3,861)	-	(3,861)
Equipment	-	(2,108)	11	(2,097)
Total accumulated amortization	-	(5,969)	11	(5,958)
Lease assets, net	$ 48,994	$ (1,106)	$ -	$ 47,888

Note 8: Long-Term Debt

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

Revenue Bonds

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

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

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

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

In August 2010, the System refunded and refinanced the Series 2007B Bonds by issuing Series 2010 Refunding and Revenue bonds in the amount of $104 million. The proceeds of the Series 2010 Bonds covered costs of issuance and defeased the Harris County Hospital District Senior Lien Refunding Revenue Bonds, Series 2007B, in the principal amount of $104 million through the irrevocable deposit of sufficient funds with trustees to pay the principal and interest of such bonds through maturity. Accordingly, these trusteed funds and the related defeased indebtedness are excluded from the balance sheet. The refunding resulted in a loss of $22 million, which includes $16 million deferred loss on refunding related to the interest rate swap, which has been deferred and is being amortized over the life of the Series 2007B Bond issue. The remaining loss on refunding of $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 $7 million at September 30, 2022. Principal amounts of total defeased indebtedness outstanding at September 30, 2022 is $60 million. 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 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, 2024. Unreimbursed advances will accrue interest at the higher of (i) the Prime Rate, (ii) one-month LIBOR plus 2.5 percent, or (iii) 7.5 percent per annum. The System is also required to pay to the JPMorgan Chase Bank an annual facility fee for the letter of credit of 0.9 percent per annum of the outstanding principal amount of the bonds. No amounts were outstanding on the letter of credit as of September 30, 2022. In addition, the System is required to pay the remarketing agent an annual fee of $1.00 per $1,000 of principal amount of the bonds actually remarketed.

Compliance

The System is in compliance with its debt covenants at September 30, 2022.

Interest Rate Swap

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

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

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

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

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

Fair Value – The redesignated swap that is associated with the new debt had a zero fair value at its inception date and a fair value of $(385) thousand at September 30, 2022 and is reported as a derivative liability in the statements of net position. The fair value of the swap was determined by calculating the present value of the anticipated future cash flows for both the floating portion and the stated fixed rate portion using discount factors derived from the London Interbank Offered Rate (LIBOR) swap curve.

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

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

Collateral Posting Risk – The risk that the System will be required to secure its obligations under the swap agreement. Any securities posted as collateral would not be available for the System's expenditure or reserve needs, which could adversely impact credit ratings and overall liquidity and budgetary efforts. The System was not exposed to collateral posting risk as of September 30, 2022.

Credit Risk – The risk of a change in the credit quality or credit rating of the System and/or its counterparty. At September 30, 2022, the swap counterparty was rated A- by Standard & Poor’s, A2 by Moody’s Investor Services, and BBB+ by Fitch. At September 30, 2022, the System was rated AA- by Standard & Poor's, A2 by Moody's Investor Services and AA by Fitch.

Rollover Risk – The System is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated debt. As of September 30, 2022, 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, 2022, termination of the original swap agreement would create a liability of $8 million 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 period ended September 30, 2022, 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 debt service requirements to maturity as of September 30, 2022 are as follows (in thousands):

	Principal	Interest	Swaps, Net	Total
Years ending September 30:				
2023	$ 7,080	$ 9,079	$ (432)	$ 15,727
2024	7,400	8,796	(412)	15,784
2025	7,755	8,452	(437)	15,770
2026	8,125	8,115	(351)	15,889
2027	8,510	7,763	(369)	15,904
2028-2032	48,810	32,971	(1,557)	80,224
2033-2037	59,510	21,491	(1,022)	79,979
2038-2042	72,165	7,609	(361)	79,413
Total	$ 219,355	$ 104,276	$ (4,941)	$ 318,690

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

Activity for the hybrid instrument borrowings for the seven-month period ended September 30, 2022 was as follows (in thousands).

Beginning balance	$ 8,167
Reductions	(405)
Ending balance	$ 7,762

The following table sets forth as of September 30, 2022, the amortization of the hybrid instrument borrowings for the next five years and thereafter (in thousands).

Years ending September 30:	
2023	$ 677
2024	653
2025	629
2026	604
2027	577
2028-2032	2,448
2033-2037	1,604
2038-2042	570
Total	$ 7,762

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 are being used to expand the operative suites and supporting services at Ben Taub Hospital necessary to maintain the facility's Level 1 Trauma status. The bonds mature in February 2036. The System's financial statements reflect $50 million in outstanding principal and $4 million in unamortized premium related to this debt at September 30, 2022. No principal was paid in the seven-month period ended September 30, 2022, however interest payments made were $1 million.

Certificates of Obligation, Series 2020

In April 2020, the System issued the combination tax and revenue Certificates of Obligation, Series 2020 (the 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 $26 million in outstanding principal and $3 million in unamortized premium related to this debt at September 30, 2022. No principal was paid in the seven-month period ended September 30, 2022, however interest payments made were $768 thousand.

Annual debt service requirements to maturity as of September 30, 2022 are as follows (in thousands).

	Principal	Interest	Total
Years ending September 30:			
2023	$ 5,415	$ 3,213	$ 8,628
2024	5,685	2,936	8,621
2025	5,970	2,659	8,629
2026	6,240	2,384	8,624
2027	6,520	2,080	8,600
2028-2032	29,410	5,609	35,019
2033-2036	17,145	1,315	18,460
Total	$ 76,385	$ 20,196	$ 96,581

Note 9: Employee Benefit Plans

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

The System administers the Harris County Hospital District Pension Plan and the Harris County Hospital District 401(k) Plan. The System issues publicly available financial reports that include financial statements and required supplementary information. The financial reports may be obtained by writing to Harris Health System, Human Resources Department, 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 of $21 thousand during the calendar year 2022 for all participants. Contributions to the plan cannot exceed the statutory maximum of $27 thousand

during the calendar year 2022 for participants age 50 and older. Effective July 2007, the System enhanced the 401(k) Plan with an employer match up to 5.0 percent of the participant's compensation for eligible employees, which is 100.0 percent vested with three or more years of service. The 401(k) Plan is a governmental plan, and as such, is specifically exempt from the reporting and disclosure requirements of Title I of the *Employee Retirement Income Security Act of 1974* (ERISA). Total participant contributions were $32 million for the seven-month period ended September 30, 2022. Total System contributions were $15 million for the seven-month period ended September 30, 2022.

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 seven-month period ended September 30, 2022, System contributions were reduced by approximately $1 million from forfeited non-vested accounts.

Pension Plan

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

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

As of December 31, 2021 (measurement date), the following employees were covered by the benefit terms:

Inactive employee or beneficiaries currently receiving benefits	3,290
Inactive employees entitled to but not yet receiving benefits	1,333
Active employees	2,014
	6,637

The Harris Health System Board of Trustees establishes the contribution requirements of the System based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the seven-month period ended September 30, 2022, the System contributed $35 million or 38.3 percent of covered payroll.

Net Pension Liability

The System's net pension liability was measured as of December 31, 2021 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.

Valuation date	January 1, 2021
Measurement date	December 31, 2021
Actuarial cost method	Entry age normal
Equivalent single amortization period	20 years, closed
Asset valuation method	Market value
Actuarial assumptions:	
Inflation	2.5%
Investment rate of return (net of expenses)	5.75
Projected salary increases (ultimate rate):	
Initial rate	5.1
Ultimate rate	3.0
Mortality rates:	
Healthy	Pri-2012 Total Dataset Mortality Table, with generational mortality improvement projected after year 2012 using Scale MP-2021
Disabled	Pri-2012 Disability Mortality Table, with generational mortality improvement projected after year 2012 using Scale MP-2021

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2021, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Real estate funds	5 %	6.43 %
Domestic equity-large cap	26	7.14
Domestic equity-small/mid cap	4	7.66
International equity	25	7.74
Fixed income	35	4.13
Hedge funds	5	6.01
	100 %	

The discount rate used to measure the total pension liability was 5.8 percent, net of expenses, as of December 31, 2021. The projection of cash flows used to determine the discount rate assumed that System contributions would be made at rates equal to the actuarial determined contribution and the Plan's fiduciary net position is projected to cover benefit payments and administrative expenses.

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances, beginning of period	$ 1,038,771	$ 876,637	$ 162,134
Changes for the year:			
Service cost	8,601	-	8,601
Interest	64,147	-	64,147
Differences between expected and actual experience	1,782	-	1,782
Changes of assumptions	61,527	-	61,527
Contributions - employer	-	57,000	(57,000)
Net investment income	-	88,725	(88,725)
Benefit payments	(53,264)	(53,264)	-
Administrative expense	-	(2,725)	2,725
Net changes	82,793	89,736	(6,943)
Balances, end of period	$ 1,121,564	$ 966,373	$ 155,191

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 5.8 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1.0 percentage point lower (4.8 percent) or 1.0 percentage point higher (6.8 percent) than the current rate (in thousands):

	1% Decrease	Current Discount	1% Increase
System's net pension liability	$ 289,716	$ 155,191	$ 42,201

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

Because the System recognized pension expense for the measurement period ended December 31, 2021 in its entirety during the year ended February 28, 2022, the System did not recognize pension expense in the seven-month period ended September 30, 2022. At September 30, 2022, the System reported deferred outflows and deferred inflows of resources related to pensions from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 27,155	$ -
Differences between expected and actual experience	786	-
Net difference between projected and actual earnings on pension plan investments	-	88,153
Employer contributions remitted subsequent to the measurement date	44,840	-
Total	$ 72,781	$ 88,153

At September 30, 2022, the System reported $45 million as deferred outflows of resources related to pensions resulting from System contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability at period ended September 30, 2023.

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:	
2023	$ 7,183
2024	(37,827)
2025	(23,321)
2026	(6,247)
	$ (60,212)

Pension Plan Fiduciary Net Position

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

Deferred Compensation

The System has a deferred compensation plan for the benefit of its eligible employees under Section 457 of the Internal Revenue Code of 1954. The assets in the Deferred Compensation Plan, which is not recorded in the accompanying statements of net position, are not subject to creditors. The Deferred Compensation Plan assets at September 30, 2022 were approximately $129 million.

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

Plan Description and Benefits Provided

The OPEB is sponsored by the System which provides certain health care benefits for retired employees. The System's employees may become eligible for those benefits upon completing 10 years of service. Retiree medical plan participants are provided benefits under the System's self-insured medical plan. The contribution requirements of plan members and the System are established by and may be amended by the System's Board of Trustees. The System funds these benefits on a pay-as-you-go basis, meaning that the System will pay benefits as they come due. For the seven-month period ended September 30, 2022, the System contributed $13 million to the Plan for current premiums and administrative costs. Plan members receiving benefits during the seven-month period ended September 30, 2022, contributed $2.7 million, or approximately 20.1 percent of the total premiums, through their required contribution. Plan members that are ages 65 and younger were required to contribute $71.92 per month for retiree-only coverage and $444.33 for retiree and spouse coverage for the seven-month period ended September 30, 2022. Plan members that are ages 65 and older were required to contribute $99.17 per month for retiree-only coverage and $520.67 for retiree and spouse coverage for the seven-month period ended September 30, 2022. 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.

At February 28, 2022 (measurement date), the following employees were covered by the benefit terms.

Inactive employee or beneficiaries currently receiving benefits	2,163
Active employees	6,108
	8,271

Total OPEB Liability

The System's total OPEB liability of $463 million as of September 30, 2022 was determined by an actuarial valuation as of March 1, 2021 and rolled forward to the measurement date of February 28, 2022.

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

Salary increases	2.5%
Discount rate	2.83%
Health care cost trend rates	6.25% for 2022, decreasing to 5.50% over 3 year and following the Getzen model thereafter

The discount rate used to measure the total OPEB liability was 2.8 percent which is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of February 28, 2022.

Mortality rates for healthy pre-commencement and post-participants were based on Pri-2012 Total Dataset Mortality Table 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)

Total OPEB liability, beginning of period	$ 588,606
Changes for the year:	
Service cost	13,425
Interest	7,067
Experience gains	7,652
Change of assumptions	(136,204)
Benefit payments	(18,018)
Net changes	(126,078)
Total OPEB liability, end of period	$ 462,528

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

The total OPEB liability has been calculated using a discount rate of 2.8 percent. The following table presents the total OPEB liability of the System using a discount rate 1.0 percent higher and 1.0 percent lower than the current discount rate (in thousands):

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	$ 536,351	$ 462,528	$ 403,224

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

	1% Decrease	Healthcare Cost Trend Rates (6.25% decreasing to 5.50%)	1% Increase
Total OPEB Liability	$ 397,071	$ 462,528	$ 544,834

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

Because the System recognized OPEB expense for the measurement period ended February 28, 2022 in its entirety during the year ended February 28, 2022, the System did not recognize OPEB expense in the seven-month period ended September 30, 2022. At September 30, 2022, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 98,534	$ 113,503
Differences between expected and actual experience	6,376	17,039
Employer benefit payments remitted subsequent to the measurement date	10,461	-
Total	$ 115,371	$ 130,542

Deferred outflows of resources of $10,461 thousand at September 30, 2022 representing benefits paid from the measurement date through the end of the reporting period will be recognized as a reduction in the OPEB liability during the year ended September 30, 2023.

Amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2022 related to OPEB will be recognized in OPEB expense as follows (in thousands):

Years ending September 30,	
2023	$ 349
2024	349
2025	349
2026	(5,255)
2027	(21,424)
	$ (25,632)

Note 11: Concentrations of Credit Risk

The System provides services to its patients, most of whom are local residents and may be insured under third-party payor agreements, in accordance with its charity care policy (see *Note 2*). Patient service revenues (see *Note 3*) and the related accounts receivable are reflected in the System's financial statements net of charges for charity care provided. The mix of net receivables from self-pay patients and third-party payors at September 30, 2022 is as follows:

Medicaid	16%
Medicare	51%
Commercial	18%
Self-pay patient	15%
	100%

Note 12: Commitments and Contingencies

At September 30, 2022, the System was a defendant in certain pending civil litigation and has notice of certain claims that have been asserted against it. The System is covered under the *Texas Tort Claims Act* (the Act). Under the Act, any claims and recoveries from pending or possible litigation due to personal injuries are limited to $100 thousand per person and $300 thousand per single occurrence of bodily injury or death. Professional liability claims have been asserted by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are also other known and unknown incidents that have occurred through September 30, 2022, that may result in the assertion of additional claims.

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

The System has self-insurance programs for the payment of hospital professional and general liability claims, workers' compensation, and employee health claims. Liabilities related to these programs are accrued utilizing actuarial analyses based on historical claims experience and are undiscounted. Changes in these self-insurance programs for the seven-month period ended September 30, 2022 are as follows (in thousands).

	Beginning-of-period Liability	Current-year Claims and Changes In Estimates	Claim Payments	End-of-period Liability
Hospital professional and general liability:	$ 2,904	$ 2,322	$ 2,023	$ 3,203
Workers' compensation liability:	$ 2,291	$ 599	$ 599	$ 2,291
Employee healthcare benefits liability:	$ 9,796	$ 90,400	$ 87,507	$ 12,689

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 statement 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, 2022, the System had commitments outstanding in the amount of $72 million related to improvements at existing facilities and $6 million 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 2031. 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 1.88% to 6.27% based on the commencement date and term of the lease.

During the seven-month period ended September 30, 2022, the System recognized $4 million 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, 2022 (in thousands):

Years Ending September 30,	Total to Be Paid	Principal	Interest
2023	$ 9,740	$ 8,231	$ 1,509
2024	8,183	6,912	1,271
2025	7,272	6,044	1,228
2026	6,334	5,468	866
2027	5,894	5,214	680
2028 - 2031	17,663	16,697	966
	$ 55,086	$ 48,566	$ 6,520

The System's lease liability activity for the seven-month period ended September 30, 2022 consists of the following (in thousands):

	Beginning Balance (As Restated)	Additions	Deductions	Ending Balance	Current Portion
Lease Liabilities	$ 48,994	$ 4,863	$ (5,291)	$ 48,566	$ 8,231

Note 14: COVID-19 Pandemic & CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

During the seven-month period ended September 30, 2022, the System received $21 million of distributions from the *Coronavirus Aid, Relief, and Economic Security* ("CARES") *Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The System is accounting for such payments as conditional contributions. Payments are recognized as non-operating revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the System's operating revenues and expenses through the seven-month period ended September 30, 2022, the System recognized $21 million in the period ended September 30, 2022, related to the Provider Relief Fund, and these payments are recorded as Provider Relief Fund revenue in the statement of revenues, expenses and changes in net position.

The System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the System is unable to attest to or comply with current or future terms and conditions the System's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the System's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Note 15: GASB Statements Issued but not yet Effective

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94) provides uniform guidance on accounting and financial reporting for public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs). As used in GASB 94, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use an infrastructure or other nonfinancial asset (the underlying PPP asset) for a period of time in an exchange or exchange-like transaction. GASB 94 also addresses APAs, which are arrangements where a government compensates an operator for services that may include designing, constructing,

financing, maintaining or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement requires governments to report assets and liabilities related to PPPs consistently and disclose information about PPP transactions. The requirements of GASB 94 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The changes would be applied retrospectively, if practicable, for all prior fiscal years presented. PPPs would be recognized and measured using the facts and circumstances that exist at the beginning of the implementation period or, if applicable to earlier periods, the beginning of the earliest period restated. In the year of adoption, the financial statement notes should disclose the nature of the restatement and its effect or the reason for not restating prior years presented.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* (GASB 96) provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset - and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and 4) requires note disclosure regarding a SBITA. To the extent relevant, the standards for a SBITAs are based on the standards established in GASB 87. The requirements of GASB 96 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

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. Earlier application is encouraged. 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 System
A Component Unit of Harris County, Texas
Schedule of Changes in the System's Net Pension Liability and Related Ratios
December 31,
(Dollar amounts in thousands)

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability:								
Service cost	$ 8,601	$ 8,036	$ 8,057	$ 8,280	$ 6,803	$ 7,232	$ 7,795	$ 8,642
Interest	64,147	64,307	63,183	60,495	61,427	59,397	57,482	52,342
Difference between expected and actual experience	1,782	3,807	243	8,000	1,718	(4,063)	4,637	(1,909)
Changes of assumptions	61,527	50,545	23,528	15,748	10,709	-	-	40,689
Benefit payments	(53,264)	(50,184)	(47,367)	(44,712)	(42,563)	(40,178)	(44,023)	(34,444)
Net change in total pension liability	82,793	76,511	47,644	47,811	38,094	22,388	25,891	65,320
Total pension liability – beginning	1,038,771	962,260	914,616	866,805	828,711	806,323	780,432	715,112
Total pension liability – ending (a)	1,121,564	1,038,771	962,260	914,616	866,805	828,711	806,323	780,432
Plan fiduciary net position:								
Contributions – employer	57,000	53,778	33,621	30,984	29,433	32,693	31,759	31,292
Net investment income	88,725	138,087	119,362	(35,426)	107,519	37,401	(4,891)	37,069
Benefit payments	(53,264)	(50,184)	(47,367)	(44,712)	(42,563)	(40,178)	(44,023)	(34,444)
Administrative expense	(2,725)	(2,366)	(3,010)	(2,442)	(2,478)	(232)	(2,389)	(2,302)
Net change in plan fiduciary net position	89,736	139,315	102,606	(51,596)	91,911	29,684	(19,544)	31,615
Plan fiduciary net position – beginning	876,637	737,322	634,716	686,312	594,401	564,717	584,261	552,646
Plan fiduciary net position – ending (b)	966,373	876,637	737,322	634,716	686,312	594,401	564,717	584,261
System's net pension liability – ending (a) – (b)	$ 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	86.16%	84.39%	76.62%	69.40%	79.18%	71.73%	70.04%	74.86%
Covered payroll	$ 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	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%.

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

	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 36,225	$ 36,056	$ 33,621	$ 30,984	$ 29,433	$ 32,693	$ 31,759	$ 31,292
Contributions in relation to the actuarially determined contribution	57,000	53,778	33,621	30,984	29,433	32,693	31,759	31,292
Contribution deficiency (excess)	$ (20,775)	$ (17,722)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 148,657	$ 156,479	$ 163,835	$ 169,885	$ 173,272	$ 182,060	$ 197,360	$ 210,728
Contributions as a percentage of covered payroll	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, 5-year smoothing
Inflation	2.5%
Salary increases	5.1% 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	Pri-2012 Disability Mortality Table, with generational mortality improvement projected after year 2012 using Scale MP-2021

Harris County Hospital District
d/b/a Harris Health System
A Component Unit of Harris County, Texas
Schedule of Changes in the System's Total OPEB Liability and Related Ratios
February 28,
(Dollar amounts in thousands)

	2022	2021	2020	2019
Total OPEB liability:				
Service cost	$ 13,425	$ 9,895	$ 9,424	$ 9,746
Interest	7,067	11,990	15,195	13,820
Experience gains	7,652	(3,056)	(30,004)	-
Changes of assumptions	(136,205)	100,078	63,631	-
Benefit payments	(18,017)	(16,731)	(16,137)	(20,173)
Net change in total OPEB liability	(126,078)	102,176	42,109	3,393
Total OPEB liability – beginning	588,606	486,430	444,321	440,928
Total OPEB liability – ending	$ 462,528	$ 588,606	$ 486,430	$ 444,321
Covered employee payroll	$ 432,158	$ 449,724	$ 514,871	$ 491,810
System's total OPEB liability as a percentage of covered payroll	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 7 years to 7.50% grading uniformly to 6.75% over 3 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 3 years to 6.50% grading uniformly to 5.75% over 3 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 3 years to 6.25% grading uniformly to 5.50% over 3 years and following the Getzen model thereafter.

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