CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Financial Statements with Independent Auditors' Report

Years ended June 30, 2020 and 2021

**CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Health Benefit Exchange
Sacramento, California

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the California Health Benefit Exchange (Covered California), as of and for the years ended June 30, 2021 and June 30, 2020, and the related notes to the financial statements, which collectively comprise the Covered California's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Covered California, as of June 30, 2021 and June 30, 2020, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Covered California and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Covered California's ability to continue as a going concern for twelve months beyond the date of the financial statements.

Lance, Soll & Lunghard, LLP 2151 River Plaza Dr., Suite 150 | Sacramento ,CA 95833 | Phone: 916.503.9691

To the Board of Directors
California Health Benefit Exchange
Sacramento, California

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with the GAAS and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Covered California'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 Covered California'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.

Other Reporting Responsibilities

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the Net Pension Liability and related ratios, the schedule of plan contributions related to pensions, the schedule of proportionate share of the net OPEB liability and related ratios, and the schedule of plan contributions related to OPEB, 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.

To the Board of Directors
California Health Benefit Exchange
Sacramento, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2022, on our consideration of Covered California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Covered California's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covered California's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Sacramento, California
July 26, 2022

Introduction

The Management Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial condition, results of operations, and cash flows for the California Health Benefit Exchange (hereafter referred to as Covered California) for the fiscal year ended June 30, 2021. The MD&A is intended to serve as an introduction to Covered California's financial statements, which have the following components: (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, (3) Statement of Cash Flows, and (4) Notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters and provides an overview of Covered California's financial activities. The following discussion is highly summarized, and in order to gain a thorough understanding of Covered California's financial position, the succeeding financial statements, and notes should be reviewed in their entirety.

To provide context, in addition to financial reporting, this report provides a review of the unique events that transformed Covered California's FY 2020-21 operations. Fiscal Year 2020-21 was a remarkable year. The fiscal year started in the grips of the COVID-19 pandemic. Covered California, like most organizations, faced extreme uncertainty. The state of California was challenged by wildfires, a public health emergency, a recession, and an unemployment rate that rose to 16.2%. Covered California entered the fiscal year planning to meet its first major challenge as part of the healthcare safety-net. The FY 2020-21 budget was built around stepping up to the pandemic challenges and the extreme uncertainty associated with a once-in-a-century pandemic.

The State of California had implemented state subsidies and mandate in January 2020. This was followed by the COVID-19 pandemic that arrived in March 2020, extreme wildfires throughout the state, the implementation of the federal American Rescue Plan Act (ARPA) enhanced subsidies, and a recession that began in February 2020. Covered California planned for additional spending throughout the fiscal year to anticipate these challenges and the need to provide health insurance coverage for individuals and families losing employer-sponsored coverage. The spending and budget augmentation focused on outreach designed to provide Californians with the information they needed to transition from employer sponsored insurance (ESI) to exchange coverage. The marketing budget was increased by $30 million, while the service center's budget was augmented by $13 million. These additional investments were designed to provide consumers with the support they needed during the challenging time.

As part of California's safety-net, Covered California added additional special enrollment periods focusing on natural disasters such as fires, and modified systems to incorporate federal policy changes that greatly enhanced affordability. Finally, Covered California transitioned its entire workforce to a telework environment to keep employees safe during the pandemic emergency.

The Covered California Board and executive management made a strategic decision to use Covered California's substantial excess working capital during the extraordinary pandemic period. As Covered California entered FY 2020-21, it maintained $454.1 million in working capital. A total that would fund roughly 12.4 months of budgeted operations. As the FY 2020-21 budget was developed, it was anticipated that operating expenditures would rise over the prior fiscal year and uncertainty regarding operating revenue and expenditures would challenge the budget. It was expected that the one-time pandemic spending would be pulled back in FY 2021-22.

Covered California's FY 2020-21 operating revenues totaled $376 million, which was $10.1 million greater than FY 2019-20's total of $366.3 million. Operating revenues missed budget targets due to lower-than-expected enrollment and lower-than-expected premium price increases.

FY 2020-21 operating expenses totaled $454.1 million. Operating expenses were up by $59.1 million over the prior fiscal year due to additional pension and OPEB accruals as well as one-time pandemic spending. Covered California recognized an operating loss of $77.7 million, with net position declining by $75.4 million. Net position, or the difference between total assets/deferred outflows and total liabilities/deferred inflows was ($14.7) million at year-end. Covered California ended FY 2020-21 with $427.8 million in working capital. Working capital will fund roughly 11.3 months of operations.

Background

Under the Federal Patient Protection and Affordable Care Act (Affordable Care Act) signed into law in March 2010, states were required to either create a state-based health insurance exchange or participate in the federal multistate health insurance exchange. The State of California elected to establish a state-based health insurance exchange. Covered California was established on September 30, 2010, with the passage of Assembly Bill 1602, as an independent state agency governed by a five-member board. The board consists of:

- The Secretary of the California Health and Human Services Agency or another designee
- Two members appointed by the Governor,
- Two members appointed by the Legislature:
    - One by the Senate Rules Committee, and
    - One by the Speaker of the Assembly.

Appointed members serve four-year terms.

The mission of Covered California is to increase the number of insured Californians, improve health care quality, lower costs, and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value.

Covered California's vision is to improve the health of all Californians by assuring their access to affordable, high-quality care.

Since the first open enrollment in 2014, Covered California has collaborated with Medi-Cal, and the Department of Health Care Services, to improve access to quality health care in the state. Covered California has reduced the number of uninsured Californians by creating an organized, transparent marketplace for Californians to purchase affordable, quality healthcare coverage offered in four categories, or tiers, each with a metal rating of Bronze, Silver, Gold, and Platinum.

Financial Statements

The accounting policies of Covered California conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. Covered California operates as an enterprise fund. An enterprise fund is a type of governmental proprietary fund used to report any activity for which a fee is charged to users for goods or services. Covered California's financial statements are prepared on an economic resources measurement focus using an accrual basis of accounting. Covered California's basic financial statements are comprised of three components which are described below.

- The *Statement of Net Position* presents information on Covered California's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is reported as net position. Over time, increases or decreases in net position serve as an indicator of whether the financial position of Covered California is improving or deteriorating.

- The *Statement of Revenues, Expenses, and Changes in Net Position* provides information about Covered California's revenues and expenses on an accrual basis. The difference between revenues and expenses reflects the change in net position for the fiscal year.

- The *Statement of Cash Flows* presents information showing how Covered California's cash and cash equivalent positions changed during the fiscal year. This statement presents changes in Covered California's cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.

The notes to the financial statements provide additional information that is essential to fully understanding the financial statements. The notes to the financial statements can be found on pages 19 through 42 of this report.

Financial Highlights

- Between FY 2019-20 and FY 2020-21, net position dropped from a positive $60.7 million to a deficit of $14.7 million. Net position declined from $82.1 million in FY 2018-19 to a deficit of $14.7 million in FY 2020-21.

- Covered California recognized operating revenues totaling $376.4 million in FY 2020-21, which was $10.1 million greater than FY 2019-20's total of $366.3 million.

- FY 2020-21 operating expenses totaled $454.1 million, which was $59.1million more than the FY 2019-20 total operating expenses of $395.0 million.

- In FY 2020-21, Covered California recognized an operating loss of $77.7 million, which exceeded FY 2019-20's operating loss of $28.6 million by $49.0 million.

- Covered California's net position declined by $75.4 million in FY 2020-21.

- On June 30, 2021, Covered California's working capital equaled $427.8 million, a decline of $26.3 million from FY 2019-20's working capital of $454.1 million. Working capital represents the difference between current assets and current liabilities and is a commonly used measure of liquidity. The working capital to expense ratio equaled 11.3 months on June 30, 2021.

- Cash flow from operations for FY 2020-21 was $2.1 million, representing a decline from the FY 2019-20 cash flow from operations of $29.8 million.

- In FY 2020-21, overall cash outflows exceeded cash inflows. Total cash inflows equaled $389.3 million, while total cash outflows equaled $400.8 million. This resulted in cash outflows exceeding inflows by $11.5 million.

Summary of the Statement of Net Position

Table 1
Covered California
Condensed Summary of Net Position
At Fiscal Year-End June 30, 2019, 2020, and 2021

	2018-19	2019-20	2020-21	FY 18-19 to FY 19-20 Difference	FY 19-20 to FY 20-21 Difference
Current assets	$ 515,280,790	$ 544,121,138	$ 525,814,377	$ 28,840,348	$ (18,306,761)
Capital assets, net	157,214,729	145,156,401	134,768,137	(12,058,328)	(10,388,264)
Total assets	672,495,519	689,277,539	660,582,514	16,782,020	(28,695,025)
Deferred outflows of resources	49,072,208	64,326,128	66,116,656	15,253,920	1,790,528
Total assets and deferred outflows of resources	721,567,727	753,603,667	726,699,170	32,035,940	(26,904,497)
Current liabilities	60,871,497	90,019,827	98,026,296	29,148,330	8,006,469
Noncurrent liabilities					
Other noncurrent liabilities	20,103,952	21,827,759	20,021,709	1,723,807	(1,806,050)
Net OPEB liabililty	326,760,000	338,695,000	365,122,000	11,935,000	26,427,000
Net pension liability	162,432,133	182,041,545	202,261,884	19,609,412	20,220,339
Noncurrent liabilities	509,296,085	542,564,304	587,405,593	33,268,219	44,841,289
Total liabilities	570,167,582	632,584,131	685,431,889	62,416,549	52,847,758
Deferred inflows of resources	69,264,145	60,301,101	55,953,462	(8,963,044)	(4,347,639)
Total liabilities and deferred inflows of resources	639,431,727	692,885,232	741,385,351	53,453,505	48,500,119
Investment in capital assets	157,214,729	145,156,401	134,768,137	(12,058,328)	(10,388,264)
Unrestricted	(75,078,729)	(84,437,966)	(149,454,319)	(9,359,237)	(65,016,353)
Total net position	$ 82,136,000	$ 60,718,435	$ (14,686,182)	$ (21,417,565)	$ (75,404,617)

Covered California's financial position has declined over the past three fiscal years. Over the three-year period between FY 2018-19 and FY 2020-21, net position declined by $96.8 million, from a positive $82.1 million to a deficit of $14.7 million (**Table 1**). Covered California's unrestricted deficit (i.e., net position excluding the net investment in capital assets) grew from $75.1 million at the end of FY 2018-19 to $149.5 million at the end of FY 2020-21, representing an increase of 99.1%.

Between FY 2019-20 and 2020-21, cash decreased by $11.5 million. Accounts receivable decreased by $10.5 million, and net capital assets decreased by $10.4 million. Deferred outflows increased by $1.8 million and other current assets increased by $3.7 million.

Capital assets include the capitalized costs associated with the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) as well as office furniture, equipment, and leasehold improvements. Covered California's total net investment in capital assets was $145.2 million and $134.8 million on June 30, 2020 and June 30, 2021, respectively. The net decrease in capital assets of $10.4 million during FY 2020-21 was due to the net impact of $35.1 million in depreciation and amortization, as well as the net addition of $24.7 million in capital investments.

Total liabilities and deferred inflows of resources increased by $48.5 million, or 7.0%, between FY 2019-20 and FY 2020-21. The increase in liabilities is mainly attributed to a $4.4 million increase in accounts payable, a $20.2 million increase to the pension liability, and a $26.4 million increase related to other post-employment benefits (OPEB). Total liabilities consist of current liabilities and noncurrent liabilities. Current liabilities of $98.0 million include accounts payable for unpaid goods and services. Noncurrent liabilities include a net OPEB liability of $365.1 million and a net pension liability of $202.3 million. While Covered California continues to make monthly contributions toward the post-retirement liabilities, the liabilities continue to grow because Covered California continues to add additional positions as well as actuarial factors outside of Covered California's control. Over the past two years, these liabilities have grown a combined $78.2 million. Total authorized positions on June 30, 2021, was 1,440, which represents an increase of 49 positions over the June 30, 2020 total of 1,391.

Covered California's current ratio, a common financial measure of an entity's ability to pay short-term obligations was 5.4 on June 30, 2021, which was a decrease from 6.0 on June 30, 2020. Covered California's current ratio on June 30, 2019 was 8.5. Covered California's working capital, the difference between current assets and current liabilities on June 30, 2021, totaled $427.8 million. Working capital declined $26.3 million from $454.1 million on June 30, 2020. Working capital was $406.2 million on June 30, 2019. Working capital is a measure commonly used to assess the short-term liquidity of a business and how well the organization can cover payments for short-term commitments.

Summary of Revenues, Expenses, and Changes in Net Position

Table 2
Covered California
Condensed Summary of Revenues, Expenses and Changes in Net Position
For Fiscal Years 2018-19, 2019-2020 and 2020-2021

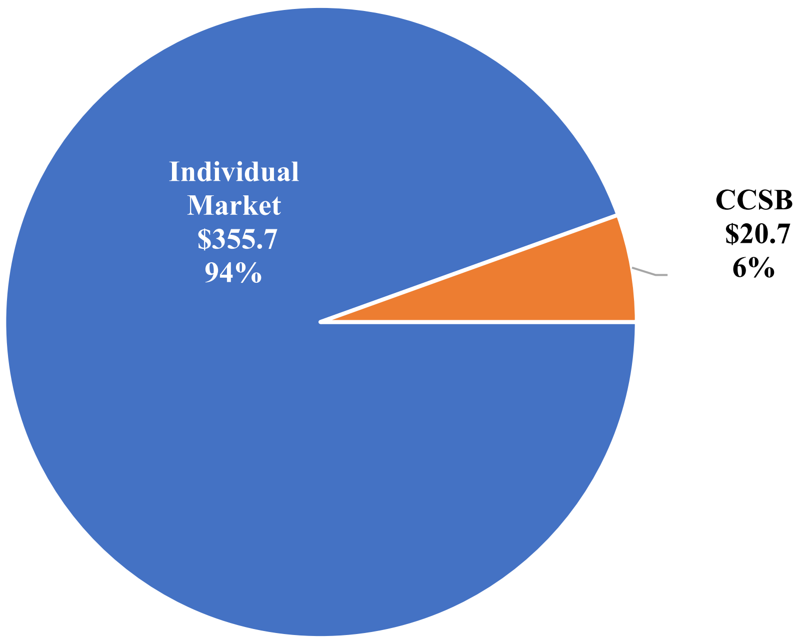
	FY 18-19	FY 19-20	FY 20-21	FY 18-19 to FY 19-20 Difference	FY 19-20 to FY 20-21 Difference
Operating revenues	$ 371,428,067	$ 366,323,257	$ 376,410,007	$ (5,104,810)	$ 10,086,750
Operating expenses	391,642,355	394,955,980	454,060,842	3,313,625	59,104,863
Operating loss	(20,214,288)	(28,632,723)	(77,650,835)	(8,418,435)	(49,018,112)
Nonoperating revenue	7,644,949	7,215,157	2,246,218	(429,792)	(4,968,939)
Changes in net position	(12,569,339)	(21,417,565)	(75,404,617)	(8,848,226)	(53,987,051)
Total net position - beginning of year	94,705,339	82,136,000	60,718,435	(12,569,339)	(21,417,565)
Total net position - end of year	$ 82,136,000	$ 60,718,435	$ (14,686,182)	$ (21,417,565)	$ (75,404,617)

While operating revenues have risen by $5.0 million, or 1.3%, between FY 2018-19 and FY 2020-21, operating expenses grew by $62.4 million, or 15.9%, during the same time period (**Table 2**). The flattening of operating revenue over the past three fiscal years was driven by lowering the assessment fee, slower growth in medical inflation relative to historical trends, and a more favorable risk mix.

Covered California's operating revenues come from two primary sources: the individual market and the small business market. During FY 2020-21, the individual market constituted 94% of operating revenue, while the small business market accounted for 6% (**Figure 1**). Individual market revenue grew from $350.6 million in FY 2019-20 to $355.7 million in FY 2020-21, representing a 1.4% increase. Covered California for Small Business (CCSB) operating revenues grew year-over-year by 32.1% or $5.0 million.

Operating revenues increased $10.1 million in FY 2020-21 to $376.4 million from a FY 2019-20 total of $366.3 million. Approximately $5.0 million of the FY 2020-21 increased operating revenue originated from the individual market, while $5.0 million was generated from CCSB.

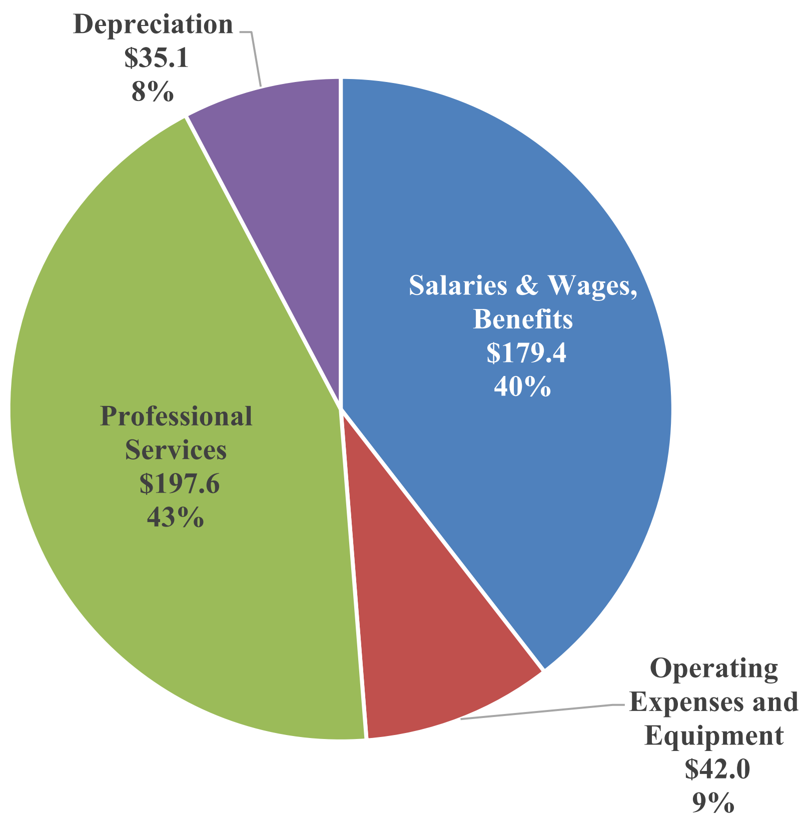
Figure 1:
Operating Revenue for Fiscal Year 2020-21
(Total = $376.4 million)



Covered California's operating expenses totaled $454.1 million. Two categories accounted for 83 percent of all operating expenses. Salaries, Wages, and Benefits comprised 40 percent of operating expenses, while Professional Services comprised 43 percent (**Figure 2**).

Operating expenses increased $59.1 million from FY 2019-20 to FY 2020-21. Salary, Wages, and Benefits increased $40.7 million. This increase was primarily due to an increase in OPEB accruals of $28.6 million, salary increases of $3.6 million, a pension accrual increase of $4.6 million, and a compensated absence increase of $4.0 million. Professional expenses increased a total of $17.1 million which was driven primarily by one-time pandemic related expenses including marketing and service center.

Figure 2
Operating Expenses by Category; FY 2020-21
(Total = $454.1 million)



Summary of the Statement of Cash Flows

The Statement of Cash Flows contains four components that, when combined, show the total net inflow or outflow of cash to the organization. These components include a) cash flows from operating activities, b) cash flows from noncapital financing activities, c) cash flows from capital and related financing activities, and d) cash flows from investing activities.

Cash flows from operating activities for FY 2020-21 totaled $2.1 million. Cash flows from operations declined year-over-year, as both personnel and other operating expenses increased. In FY 2018-19 cash flows from operating activities was $85.5 million, and in FY 2019-20 cash flows from operating activities was $29.8 million (**Table 3**). Cash flows from operations represents the difference between the inflows from assessment fees and the outflows for continued operations. In FY 2020-21, Covered California's cash flows from operations benefitted from a statewide salary reduction of 9.23%. If not for this salary reduction, Covered California's cash flow from operations would have been negative.

Cash flows from noncapital financing activities include the net effect of interest expense and non-sufficient fund payments. For FY 2020-21, cash flows from noncapital financing activities were a net inflow of $354,000, which was increase of approximately $400,000 from the net outflow of $45,000 in FY 2019-20.

Cash flows from capital and related financing activities was a net outflow of $16.9 million, which consisted mostly of nontangible investments in the CalHEERS. This was an increase of $1.9 million over the previous fiscal year total of $15.0 million.

Cash flows from investing activities consist primarily of interest earned on Covered California's funds maintained in the Surplus Money Investment Fund (SMIF). In FY 2020-21, interest revenue was $2.9 million, a decrease of $5.4 million from FY 2019-20. The decrease in interest revenue was the result of the Federal Reserve lowering interest rates.

Table 3
Covered California
Condensed Statement of Cash Flows for FY 2020-21
(Dollars in Millions)

	2018-19	2019-20	2020-21	FY 18-19 to FY 19-20 Difference	FY 19-20 to FY 20-21 Difference
Cash Flows from Operations	$ 377.2	$ 359.0	$ 386.0	$ (18.2)	$ 27.0
Cash Outflows from Operations	(291.7)	(329.2)	(383.9)	(37.5)	(54.7)
Cash Flows from Operating Activities	85.5	29.8	2.1	(55.7)	(27.7)
Cash Flows from Noncapital Financial Activities	(0.1)	(0.0)	0.3	0.1	0.3
Cash Flows from Investments in Capital Assets	(11.6)	(15.0)	(16.9)	(3.4)	(1.9)
Cash Flows from Investing Activities	7.0	8.3	2.9	1.3	(5.4)
Net Income/(Decrease) in Cash	$ 80.8	$ 23.0	$ (11.5)	$ (57.8)	$ (34.5)

Budget to Actual Results

Covered California develops an annual budget each fiscal year that is approved by the Board of Directors. The budget is prepared on a budgetary basis of accounting. The budgetary basis of accounting utilizes modified accrual and a current resources measurement focus. This differs from the GAAP basis, which uses an economic resources measurement focus and full accrual basis of accounting. The economic resource basis measures activity regardless of whether cash transactions transpire, such as depreciation and retirement accruals.

FY 2020-21 actual budgetary financial outcomes were more favorable than projected. The FY 2020-21 approved budget projected an operating loss of $23.4 million. Total budgeted operating revenues equaled

$416.8 million, while total budgeted operating expenses equaled $440.2 million. Budgetary net position was projected to decline by $22.5 million (**Table 4**).

Actual FY 2020-21 operating revenue totaled $378.9 million, or 9.1%, less than budgeted. This unfavorable operating revenue budget variance was the result of both volume and price variations. Enrollment came in at 810,850 member months less than forecasted, contributing to 38% of the unfavorable variance. The assessment fee per-member-per-month (PMPM) was $1.47 less than projected, contributing to 62% of the unfavorable budget variance. Covered California's revenue projection assumed that premiums would grow by 8 percent in 2021; however actual premiums grew by only 0.6%.

FY 2020-21 actual expenditures were $394.0 million, or $46.1 million less than budgeted. This favorable expenditure variance was due to a $22.0 million favorable personnel expenditures variance and a $23.4 million favorable variance in other operating expenditures. The personnel expenditure variance was due primarily to the one-year 9.23% salary reduction that began in July 2020. The favorable variance for other operating expenditures was due to contracted expenditures that did not materialize.

The FY 2020-21 approved budget assumed an operating loss of $23.4 million. However, the actual operating loss recognized equaled $15.1 million, resulting in a favorable variance of $8.2 million. The FY 2020-21 approved budget projected a decrease in net position of $22.5 million; however, the actual results disclosed a decrease in net position of $12.8 million.

Table 4
Covered California
FY 2020-21 Statement of Revenues, Expenditures, and Changes in Net Position Due to Operations Compared to the FY 2020-21 Approved Budget
Budgetary Accounting – non-GAAP

	Fiscal Year 2020-21 Approved Budget	Fiscal Year 2020-21 Budgetary Actuals	Variance
Positions	1,419	1,420	-1
Revenue			
Individual Market	$ 399,228,610	$ 355,501,678	$ (43,726,932)
CCSB and Other	$ 17,594,281	$ 23,410,907	$ 5,816,626
Total Operating Revenue	$ 416,822,891	$ 378,912,585	$ (37,910,306)
Expenditures			
Personnel Expenditures	$ 153,150,835	$ 131,161,809	$ 21,989,026
Other Operating Expenditures	$ 270,750,974	$ 247,324,273	$ 23,426,701
ProRata/Suppl Pension/Other	$ 16,276,753	$ 15,546,753	$ 730,000
Total Expenditures	$ 440,178,562	$ 394,032,835	$ 46,145,727
Operating Gain/(Loss)	$ (23,355,671)	$ (15,120,250)	$ 8,235,421
Non-Operatng Rev (SMIF and Other)	$ 900,000	$ 2,349,716	$ 1,449,716
Change in Net Position	$ (22,455,671)	$ (12,770,534)	$ 9,685,137

Budgetary Basis Results Compared to U.S. GAAP Basis Reconciliation

Covered California's change in net position on a budgetary basis decreased by $12.8 million in FY 2020-21. The change in net position under GAAP for FY 2020-21 totaled a net decrease of $75.4 million. Table 5 presents a reconciliation of the differences in the change in net position between the budgetary basis of accounting and the GAAP basis of accounting.

Over the past several years, the changes in net position under GAAP and the economic resources measurement focus were between $30 million and $50 million greater than the budgetary basis outcomes. The differences are due principally to non-cash items such as depreciation, pension / OPEB accruals, and compensated absences.

Table 5
Budgetary Accounting to GAAP Conversion

Budgetary change in net position	**$**	**(12.8)**
Pension expense (GASB 68 adjustments)		(20.4)
OPEB (GASB 75 adjustments)		(20.1)
Capital asset purchases		24.7
Depreciation expense		(35.1)
Compensated absences		(7.7)
Other GAAP adjustments, net		(4.0)
GAAP change in net position	**$**	**(75.4)**

Currently Known Facts, Decisions or Conditions

Financial results for FY 2021-22 are projected to be more favorable than anticipated in the FY 2021-22 budget. The FY 2021-22 budget projected a budgetary operating loss of $3.7 million; however, results to date indicate Covered California will likely acheive break-even.

Converting the budgetary basis financial outcome to a projected GAAP financial outcome indicates that Covered California's net position will decline for FY 2021-22. The decline in net position for the year is projected to be roughly $35 million, which is approximately one-half of the decline in net position recognized during FY 2020-21. The projected FY 2021-22 improved financial outcome results from the elmination of one-time pandemic spending.

At present, Covered California faces several policy and macroeconomic uncertainties with the potential to significantly impact revenue, expenses and overall financial outcomes. Covered California's revenue is the product of both volume (enrollment) and price (revenue per-member-per-month). Uncertainties related to price may result from factors such as increased medical inflation or changes in the population risk mix. Gross premiums may rise as the carrier's price in higher rates in response to higher inflation or changes to the population risk mix. Uncertainties related to volume directly result from the yet undetermined fate of the enhanced premium tax credits, or subsidies, provided under the American Rescue Plan Act (ARPA). which are scheduled to expire at the end of 2022. On the expenditure side, macroeconomic conditions may also create cost pressures as Covered California faces higher labor costs, and prices for goods and services.

ARPA's enhanced subsidies dramatically increased affordability for Covered California consumers but are set to expire at the end of 2022. While there have been discussions of extending the legislation and the enhanced federal subsidies, considerable uncertainty exists concerning whether the extension will materialize. If the enhanced federal subsidies are not extended beyond December 2022, Covered California projects a monthly enrollment decline of between 150,000 to 250,000. This may result in a reduction of annual operating revenue of between $30 million and $55 million.

Medical cost trends may be impacted by the loss of enrollment. If ARPA is not extended and roughly 150,000 to 250,000 individuals exit Covered California, carriers will likely price in a higher risk mix. If those who exit tend to be younger, healthier individuals, the risk pool will be modified. Higher year-over-year premium growth will materialize. While carrier reaction and pricing increases may result from such exits, there is also the possibility that individuals may choose to select lower-cost health plan options if prices rise. This would impact the year-over-year growth in the average premium, placing downward pressure on growth. To the extent the year-over-year growth deviates from our projected growth, revenues may be higher or lower depending upon the outcome.

Medical inflation combined with higher utilization may increase operating revenues in the future. Covered California is coming off three years of flat revenues driven by historically low increases in medical costs and the lowering of its assessment fee. If premium growth returns to normal trend rates, Covered California's operating revenues will increase moving away from the flat trend experienced over the past three years.

Inflation in the overall economy is considerably higher than average historical levels. The March 2022 12-month change for the CPI-U was 8.5 percent, while the core inflation was 6.5 percent. While initial economic forecasts anticipated that higher inflation would subside to historical levels within a year, more recent economic forecasts note there is uncertainty around this assumption. The Federal Open Market Committee (FOMC) raised the federal funds rate by 25 basis points in March 2022. The FOMC cited strong job gains, a falling unemployment rate, and elevated inflation as its reasons. In May, the FOMC raised the federal funds rate again, by 50 basis points, and again in June by 75 basis points. Individuals within the lower-income groups will be disproportionally impacted if inflation remains high. Studies have shown that lower-income groups are disproportionately affected by inflation and face higher inflation rates than their higher-income counterparts. Lower-income groups spend a more significant proportion of their income on necessities. Therefore, the lower-income groups will be more price-sensitive to the high inflation, which may influence decisions on whether they purchase health coverage. The combination of ARPA expiring and continued high inflation may result in revenue declines that are greater than forecasted.

Covered California is subject to civil service labor agreements that may result in personnel expense cost pressures. Roughly 40 percent of Covered California's operating expenses are associated with personnel expenses. Covered California's personnel expenses may rise faster than anticipated creating future cost pressures.

Inflation pressure may drive other operating expenses higher creating further cost pressures. Covered California, like all organizations, must purchase goods and services that may become more costly if inflation persists.

In the past year, there have been several waves of infection due to variants of the COVID-19 virus. California experienced a surge due to the Delta variant in the late summer of 2021. A more severe wave of infections occurred in January and February of 2022 due to the Omicron variant. While cases of COVID-19 from the Omicron variant have fallen dramatically in California, the recent appearance of the even more transmissible BA.1, BA.2, and BA.3 subvariants and recent outbreaks in Shanghai, China and elsewhere have caused public health officials to remain on alert. On April 12, 2022, the US Health and Human Services agency extended the Public Health Emergency (PHE) for another 90-days. If COVID-19 infections begin to rise and public health interventions must be enacted, it is possible that macroeconomic conditions may deviate from our expectations. The PHE may be extended, impacting inflows from Medi-Cal into Covered California. Such an event may result in changes in enrollment inflows and outflows or result in changes in public policy not anticipated in our forecasts.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Statements of Net Position
June 30, 2020 and 2021

Assets and Deferred Outflows		**2020**		**2021**
Current assets:				
Cash and cash equivalents	$	490,081,853	$	478,579,584
Receivables:				
Enrollment fees (net of allowance for cancelled enrollments)		46,755,530		40,562,730
Other receivables		4,952,289		676,665
Total receivables		51,707,819		41,239,395
Other current assets		2,331,466		5,995,398
Total current assets		544,121,138		525,814,377
Noncurrent assets:				
Depreciable capital assets		394,626,657		418,874,817
Less accumulated depreciation		(249,470,256)		(284,106,680)
Capital assets, net		145,156,401		134,768,137
Total assets		689,277,539		660,582,514
Deferred Outflows of Resources				
Deferred outflows of resources - pension		41,570,128		37,822,656
Deferred outflows of resources - OPEB		22,756,000		28,294,000
Total deferred outflows of resources		64,326,128		66,116,656
Total assets and deferred outflows of resources	$	753,603,667	$	726,699,170
Liabilities and Deferred Inflows				
Current liabilities:				
Accounts payable	$	78,068,983	$	82,421,124
Accrued liabilities		404,547		668,630
Unearned revenue		1,036,131		1,132,034
Interfund loan payable		2,991,689		3,187,495
Compensated absences		7,518,477		10,617,013
Total current liabilities		90,019,827		98,026,296
Noncurrent liabilities:				
Compensated absences		4,754,235		9,375,417
Other liabilities		3,753,163		513,427
Interfund loan payable		13,320,361		10,132,865
Net other postemployment benefits		338,695,000		365,122,000
Net pension liability		182,041,545		202,261,884
Total noncurrent liabilities		542,564,304		587,405,593
Total liabilities		632,584,131		685,431,889
Deferred Inflows of Resources				
Deferred inflows of resources - pension		5,698,101		2,150,462
Deferred inflows of resources - OPEB		54,603,000		53,803,000
Total deferred inflows of resources		60,301,101		55,953,462
Total liabilities and deferred inflows of resources		692,885,232	$	741,385,351
Net Position				
Net investment in capital assets		145,156,401	$	134,768,137
Unrestricted (deficit)		(84,437,966)		(149,454,319)
Total net position	$	60,718,435	$	(14,686,182)

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE

(COVERED CALIFORNIA)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2021

		2020		2021
Operating revenues:				
Enrollment fees-individual	$	350,638,441	$	355,690,379
Enrollment fees-CCSB		15,684,816		20,719,628
Total operating revenues		366,323,257		376,410,007
Operating expenses:				
Salaries, wages, benefits		138,644,031		179,413,923
Operating expenses and equipment		34,525,303		31,223,595
Professional services		180,133,380		197,204,364
Facilities operations		8,406,704		10,738,305
Communications		244,519		368,347
Depreciation expense		33,002,043		35,112,308
Total operating expenses		394,955,980		454,060,842
Operating loss		(28,632,723)		(77,650,835)
Nonoperating revenues (expenses):				
Interest income		7,293,983		1,977,067
Other income (expense)		(44,727)		354,362
Loss on disposal of assets		(34,099)		(85,211)
Total nonoperating revenues and expenses		7,215,157		2,246,218
Change in net position		(21,417,565)		(75,404,617)
Total net position – beginning of year		82,136,000		60,718,435
Total net position – end of year	$	60,718,435	$	(14,686,182)

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE

(COVERED CALIFORNIA)

Statements of Cash Flows

Years ended June 30, 2020 and 2021

	2020	2021
Cash flows from operating activities:		
Receipts from enrollment fees	$ 359,028,399	$ 386,017,452
Payments to employees and for employee benefits	(128,553,624)	(133,912,639)
Payments to suppliers	(200,690,301)	(249,956,395)
Net cash provided by operating activities	29,784,474	2,148,418
Cash flows from noncapital financing activities:		
Other income (expenses)	(44,727)	354,362
Net cash provided by (used in) noncapital financing activities	(44,727)	354,362
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(15,031,262)	(16,938,999)
Net cash used in capital and related financing activities	(15,031,262)	(16,938,999)
Cash flows from investing activities:		
Interest income	8,305,448	2,933,951
Net cash provided by investing activities	8,305,448	2,933,951
Net increase (decrease) in cash and cash equivalents	23,013,933	(11,502,269)
Cash and cash equivalents – beginning of year	467,067,920	490,081,853
Cash and cash equivalents – end of year	$ 490,081,853	$ 478,579,584
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (28,632,723)	$ (77,650,835)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	33,002,043	35,112,308
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(7,699,246)	9,511,541
(Increase) decrease in other assets	861,366	(3,663,932)
Changes in pension obligations	15,834,449	20,420,172
Changes in OPEB obligations	(8,507,000)	20,089,000
Increase (decrease) in accounts payable	18,495,314	(3,518,116)
Increase (decrease) in accrued liabilities	58,917	264,083
Increase (decrease) in unearned revenue	404,389	95,904
Increase (decrease) in interfund loan payable	(1,024,951)	(2,991,689)
Increase (decrease) in compensated absences	3,728,992	7,719,718
Increase (decrease) in other liabilities	3,262,925	(3,239,736)
Net cash provided by operating activities	$ 29,784,474	$ 2,148,418
Supplemental disclosure of non-cash activities:		
Loss on disposal of capital assets	$ (34,099)	$ (85,211)
Capital asset purchases included in accounts payable	$ 5,946,552	$ 7,870,256

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

The California Health Benefit Exchange (Covered California) was created on September 30, 2010 as an independent public entity with the passage of Assembly Bill 1602, enacting the federal Patient Protection and Affordable Care Act (Affordable Care Act). Under the Affordable Care Act signed into law in March 2010, states were required to decide whether to create a state-based health insurance exchange or participate in the federal multistate health insurance exchange. The State of California (the State) elected to establish a state-based health insurance exchange. In 2010, State law was enacted to implement the provisions of the Affordable Care Act to reduce the number of uninsured Californians by creating an organized, transparent marketplace for Californians to purchase affordable, quality healthcare coverage offered in four categories, or tiers, each with a metal rating of Bronze, Silver, Gold, and Platinum.

Covered California is not a component unit of the State. Covered California is a related organization.

(b) Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

(c) Revenue Recognition

Revenues are classified as operating or nonoperating in the accompanying Statement of Revenues, Expenses and Changes in Net Position. Operating revenues began in fiscal year 2013-14 and result from monthly enrollment fees assessed on health insurance companies for policies sold through the marketplace for the individual and Covered California for Small Business (CCSB) markets.

Effective January 2017, Covered California's assessment fee switched from a flat per-member-per-month fee to a percent assessment on total premiums paid.

In the individual market for the fiscal year 2020-21, Covered California charged the health insurance carriers a 3.50 percent assessment fee on total premiums paid for both medical and dental enrollees for the 2020 plan year (July to December) and 3.25 percent for the 2021 plan year (January to June). For the fiscal year 2019-20, health insurance carriers were charged a 3.75 percent assessment fee on total premiums paid for both medical and dental enrollees for the 2019 plan year (July to December) and 3.50 percent for the 2020 plan year (January to June).

For fiscal years 2019-20 and 2020-21, in the CCSB market, Covered California charged the health insurance carriers a 5.2 percent fee on total premiums paid for both medical and dental enrollees.

Covered California recognizes individual and CCSB enrollment fee revenues when effectuated enrollment occurs and the fees are earned from the health insurance carriers. All revenues received that are not part of the ongoing operations, such as interest income, are classified as nonoperating revenues.

(d) Cash and Cash Equivalents

Cash and cash equivalents represent cash deposited in the Surplus Money Investment Fund (SMIF) and cash on hand with the State Treasurer.

(e) Receivables

Receivables represent the following for fiscal years 2019-20 and 2020-21 respectively: amounts owed from health insurance carriers for enrollment fees and small businesses for premiums in the amount of $46.8 million and $40.6 million, abatements of $3.6 million and $.3 million, and amounts due from the Surplus Money Investment Fund (SMIF) of $1.3 million and $.3 million.

(f) Capital Assets

Capital assets are defined as assets which have a unit cost of $5,000 or greater and a useful life of more than one year. Capital assets are stated at cost. Depreciation on equipment is calculated using the straight-line method over the estimated useful life ranging from 2 to 20 years. Depreciation on internally generated software and purchased software is calculated using the straight-line method over the estimated useful life of 10 and 5 years, respectively. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the period of disposal. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the lease term or the useful life.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*, Covered California has recorded internally generated computer software that went live on October 1, 2013. Intangible assets are considered internally generated if they are created or produced by Covered California or an entity contracted by Covered California, or if they are acquired from a third party but require more than minimal incremental effort on the part of Covered California to begin to achieve their expected level of service capacity. The preliminary project stage was completed in June 2012. Application development costs incurred during the fiscal year 2019-20 were $18.7 million and during fiscal year 2020-21 were $18.8 million. Depreciation of the intangible assets began on October 1, 2013 and totaled $31.3 million and $32.5 million for fiscal years 2019-20 and 2020-21, respectively.

(g) Accounts Payable

Accounts payable represents amounts owed by Covered California to third parties. The accounts payable total includes an amount due to carriers and agents for the CCSB market of $18.8M for the FY19-20 and of $22.6M for FY20-21.

(Continued)

In the previously published financial statements for FY19-20, the amount of $18.8M was recorded as deferred revenue (currently unearned revenue) and have since been reclassified to accounts payable for comparative purposes.

(h) Compensated Absences Payable

Vacation balances are accrued as a liability.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Pensions

Covered California has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 revises existing standards for measuring and reporting pension liabilities. This statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

For purpose of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information contained within Covered California has been determined on the same basis as it is reported by the California Public Employees' Retirement System (CalPERS) Financial Office and the State Controller's Office.

(k) Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in net pension liability or net other postemployment benefits (OPEB) not included in pension expense or OPEB expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability or net OPEB liability are reported as deferred outflows of resources. Deferred outflows of resources and deferred inflows of resources also include the unamortized balances of: changes in assumptions, differences between expected and actual experience, and net differences between projected and actual earnings on investments.

(Continued)

(l) Other Postemployment Benefits (OPEB)

Covered California has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 revises existing standards for measuring and reporting other postemployment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to OPEB. This statement replaced the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

(2) Cash and Cash Equivalents

Cash and cash equivalents are held as cash on hand in pools and managed by the State Treasurer. They are not evidenced by securities. Interest income earned on outstanding cash balances is allocated among pool participants based on average daily cash balances.

		2020		2021
State treasury	$	91,501,853	$	99,066,584
Surplus money investment fund (SMIF)		398,580,000		379,513,000
Total	$	490,081,853	$	478,579,584

As of June 30, 2020 and 2021, the carrying value of deposits in the SMIF represents the fair value. The SMIF consists of the available cash of all special funds of the State which do not have investment authority of their own. Cash balances in excess of needs in any of these participating funds are invested by the State Treasurer. The Pooled Money Investment Board (PMIB) provides regulatory oversight over the State Treasurer's pooled investment program and is responsible for determining whether any cash balances of the participating funds are in excess of current needs and available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. The PMIB is composed of the State Treasurer, as chairman; the State Controller; and the Director of Finance.

All of the resources of the SMIF are invested through the Pooled Money Investment Account (PMIA). By law, PMIA monies can be invested only in the following categories: U.S. Government securities; securities of federally sponsored agencies; domestic corporate bonds; interest-bearing time deposits in California banks, savings and loan associations, and credit unions; prime-rated commercial paper; repurchase and reverse repurchase agreements; security loans; banker's acceptances; negotiable certificates of deposits; and loans to various bond funds.

(Continued)

At June 30, 2020 and 2021, the allocation of the deposits held by Covered California in the SMIF was estimated as follows:

		2020		2021
U.S. Treasury Securities	$	208,796,814	$	266,453,571
Federal Agency Debt		79,660,617		46,235,791
Supranational Debentures		3,216,215		3,773,772
Bank Notes		394,717		98,158
Certificates of Deposit		52,105,173		31,803,159
Commercial Paper		30,468,530		21,777,086
Bonds		-		221,624
Time Deposits		21,665,960		7,726,008
AB 55 and General Fund Loans		2,271,974		1,423,831
Total	$	398,580,000	$	379,513,000

The value of the deposits in the State Treasurer's pooled investment program, including the SMIF, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2020 and 2021, this difference was immaterial to the valuation of the deposits held by Covered California in the SMIF.

Covered California's share in the interest earnings of the PMIA is based on its ratio of dollar-day contributions to the total dollar-day investments of the PMIA. The overall return on investment for the PMIA was 1.934 percent for the year ended June 30, 2020 and .05 percent for the year ended June 30, 2021.

Additional disclosures regarding investment risks, interest rate risk, credit risk, custodial credit risk and concentration of credit risk, are presented in the financial statements of the State of California for the years ended June 30, 2020 and June 30, 2021.

(Continued)

(3) Capital Assets

Changes in capital assets for the year ended June 30, 2020 are as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Depreciable assets-development costs:				
Internally developed software	$ 295,477,354	$ 18,570,451	$ -	$ 314,047,805
Hardware	23,266,934	125,078	-	23,392,012
Licenses and purchased software	42,033,107	41,547	-	42,074,654
Total depreciable assets development costs	360,777,395	18,737,076	-	379,514,471
Depreciable capital assets:				
Office furniture and equipment	9,811,926	1,855,026	(85,655)	11,581,297
Leasehold improvements	3,145,177	385,712	-	3,530,889
Total depreciable capital assets	12,957,103	2,240,738	(85,655)	15,112,186
Less accumulated depreciation:				
Asset development costs	(208,130,557)	(31,306,650)	-	(239,437,207)
Office furniture and equipment	(6,417,698)	(1,248,625)	51,556	(7,614,767)
Leasehold improvements	(1,971,514)	(446,768)	-	(2,418,282)
Total accumulated depreciation	(216,519,769)	(33,002,043)	51,556	(249,470,256)
Total capital assets, net	$ 157,214,729	$ (12,024,229)	$ (34,099)	$ 145,156,401

(Continued)

Changes in capital assets for the year ended June 30, 2021 are as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Depreciable assets-development costs:				
Internally developed software	$ 314,047,805	$ 18,811,124	$ -	$ 332,858,929
Hardware	23,392,012	-	-	23,392,012
Licenses and purchased software	42,074,654	-	-	42,074,654
Total depreciable assets development costs	379,514,471	18,811,124	-	398,325,595
Depreciable capital assets:				
Office furniture and equipment	11,581,297	390,790	(561,095)	11,410,992
Leasehold improvements	3,530,889	5,607,341	-	9,138,230
Total depreciable capital assets	15,112,186	5,998,131	(561,095)	20,549,222
Less accumulated depreciation:				
Asset development costs	(239,437,207)	(32,511,318)	-	(271,948,525)
Office furniture and equipment	(7,614,767)	(1,270,926)	475,884	(8,409,809)
Leasehold improvements	(2,418,282)	(1,330,064)	-	(3,748,346)
Total accumulated depreciation	(249,470,256)	(35,112,308)	475,884	(284,106,680)
Total capital assets, net	$ 145,156,401	$ (10,303,053)	$ (85,211)	$ 134,768,137

(Continued)

(4) Leases

Covered California leases office space for its headquarters and Service Centers under operating leases. The lease terms vary, with the oldest expiring April 30, 2030.

The future minimum lease payments under current operating leases as of June 30, 2021 are as follows:

For the year ending June 30:		
2022	$	8,459,757
2023		8,336,950
2024		8,121,961
2025		8,121,961
2026		4,531,498
Thereafter		11,211,772

Rental expense for operating leases totaled $7.4 million and $9.0 million for the years ended June 30, 2020 and 2021 respectively.

(5) Interfund Loan Payable

During the year ended June 30, 2018, the State enacted a pension borrowing plan, as part of their 2017-18 budget package, to reduce the state's unfunded liabilities for its employee pension plans. Chapter 50, Statutes of 2017 Senate Bill 84 (SB 84) authorized the State to make a one time $6 billion supplemental pension payment to the California Public Employees' Retirement System (CalPERS) in fiscal year 2017-18, in addition to the annual state contribution. The additional pension payment was funded through a loan from the Surplus Money Investment Fund (SMIF). Covered California's proportionate share of the loan was $17,337,000 as of fiscal year 2017-18 and a loan payable to the SMIF was established.

Changes in the interfund loan payable for the year ended June 30, 2020 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Inter-fund loan payable SMIF (SB84)	$ 17,337,000	$ -	$ 1,024,951	$ 16,312,049	$ 2,991,689

Changes in the interfund loan payable for the year ended June 30, 2021 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Inter-fund loan payable SMIF (SB84)	$ 16,312,049	$ -	$ 2,991,689	$ 13,320,360	$ 3,187,495

SB 84 requires all funds that are normally responsible for paying retirement contributions repay the interest and principal on the SMIF loan over the next decade. SB 84 indicates that state funds must repay their respective shares of the loan in proportion to their pension costs, but also gives the Department of Finance (DOF) discretion to determine the timing of the repayments and the methodology for estimating the repayments costs across funds.

In fiscal year 2017-18, the first year of the loan repayment, only the General Fund paid the principal and interest on the loan. In fiscal year 2018-19, in addition to the General Fund, special and non-governmental cost funds started repaying their proportionate share of the loan's principal and interest. The fiscal year 2018-19 assessments were equal to the estimated loan repayment amount each fund is obligated to pay in fiscal year 2018-19, plus the repayment amount for the fiscal year 2017-18. The Department of Finance directs the State Controller's Office (SCO) to assess the fund's share for a particular year required loan repayment.

The estimated annual schedule of principal and interest to maturity is as follows:

	Principal	Interest	Total
2021-22	3,187,495	20,505	3,208,000
2022-23	2,801,000	407,000	3,208,000
2023-24	2,915,000	293,000	3,208,000
2024-25	3,030,000	178,000	3,208,000
2025-26	1,386,865	893,824	2,280,689
Total	$ 13,320,360	$ 1,792,329	$ 15,112,689

(6) Retirement Planning and Other Postemployment Benefits

(a) Retirement Plan

Covered California adopted GASB 68 during the 2014-15 fiscal year. GASB 68 requires that the reported results pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

	2020	2021
Valuation date (VD)	June 30, 2018	June 30, 2019
Measurement date (MD)	June 30, 2019	June 30, 2020
Measurement period (MP)	July 01, 2018 to June 30, 2019	July 01, 2019 to June 30, 2020

(Continued)

Plan Description, Benefits Provided, and Employees Covered

Covered California contributes to the Public Employees' Retirement Fund administered by the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. Covered California has employees who are enrolled in the State Miscellaneous Plan (First Tier and Second Tier). CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State and uses the accrual basis of accounting. Benefit provisions and all other requirements are established by state statute.

CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. CalPERS' annual financial report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS web site at www.CalPERS.ca.gov.

Generally, full-time employees are eligible to participate as members of CalPERS and are eligible to retire at age 50 with at least five years of service or age 55 with at least ten years of service, depending on the plan selected by the employee. However, the Public Employees' Pension Reform Act, or PEPRA, was passed in 2012 and went into effect on January 1, 2013. This new law changed the terms of the pension plan for state workers first hired after January 1, 2013. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest or last 12 or 36 consecutive months' average compensation. Healthcare and dental benefits may be provided to members depending on the date hired and the years of credited service of a member. If members are not fully vested, the healthcare and dental contributions will be prorated based on the years of service.

Contributions

Section 20814 (c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. 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. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the Miscellaneous Plan measurement period ended June 30, 2019 the active employee contribution rate is 8 percent to 10 percent of annual pay for Tier 1 and 3.75 percent of annual pay for Tier 2. For the Miscellaneous Plan measurement period ended June 30, 2020, the active employee contribution rate is 8 percent to 11 percent of annual pay for Tier 1 and 3.75 percent of annual pay for Tier 2. The employer's contribution rate for the Miscellaneous Plan Tier 1 and Tier 2 is 31.075 percent of annual payroll for the measurement period ended June 30, 2019 and 29.37 percent of annual payroll for the

(Continued)

measurement period ended June 30, 2020. These rates reflect PERL Section 20683.2, which mandates that certain employees contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

Discount Rate

CalPERS prepared the GASB 68 Accounting Valuation Reports (AVRs) for the State of California for the five plans (including the State Miscellaneous Plan) in which the State participates. For both the June 30, 2019 and June 30, 2020 measurement dates, CalPERS utilized a discount rate of 7.15 percent, which includes the plans' administrative expenses.

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

The State Controller's Office (SCO) used a calculated percentage based on Covered California's share of the pensionable compensation to the State's total pensionable compensation amounts for the State Miscellaneous Plan, to provide Covered California's net pension liability and related GASB 68 accounting elements. For the June 30, 2019 measurement period (MP) and June 30, 2020 MP Covered California's calculated percentage for the State Miscellaneous Plan was 0.541209 percent and 0.581853 percent, respectively.

Covered California's net pension liability for the State Miscellaneous Plan was $162.4 million at the beginning of the June 30, 2019 MP and $182.0 million at the end of the MP. Covered California's net pension liability for the State Miscellaneous Plan was $182.0 million at the beginning of the June 30, 2020 MP and $202.3 million at the end of the MP.

As of the start of the measurement periods, July 1, 2018 and 2019, the net pension liability was $162,432,133 and $182,041,545, respectively.

For the measurement periods, June 30, 2019 and 2020 (the measurement date), Covered California incurred a non-cash pension expense of $40,183,169 and $43,211,894, respectively.

As of the measurement date of June 30, 2019 and 2020, Covered California had deferred outflows and deferred inflows of resources related to pensions as follows:

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	2019	2020
Deferred Outflows of Resources		
Pension Contributions Subsequent to Measurement Date	$ 24,348,721	$ 22,791,722
Difference Between Expected and Actual Experiences	9,552,923.00	10,044,564
Change in Assumptions	7,668,484	
Net Difference In Projected and Actual Earnings on Pension Plan Investment	-	4,986,370
Total	**$ 41,570,128**	**$ 37,822,656**
Deferred Inflows of Resources		
Difference Between Expected and Actual Experiences	$ (523,711)	$ -
Change in Assumptions	(3,818,743)	(1)
Net Difference In Projected and Actual Earnings on Pension Plan Investment	(1,355,647)	(2,150,461)
Total	**$ (5,698,101)**	**$ (2,150,462)**

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period ended June 30:	**Deferred Outflows/(Inflows) of Resources**
2021	$ 1,144,664
2022	5,408,501
2023	4,008,762
2024	2,318,545
Total	**$ 12,880,472**

(Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liability as of the June 2019 measurement date was based on an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019. The total pension liability as of the June 2020 measurement date was based on an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020. Unless noted, both calculations were based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Amortization Method/Period:	For the June 30, 2019 measurement date, the 2016 CalPERS Actuarial Amortization Policy specifies that all changes in liability due to plan amendments (other than golden handshakes which are amortized over 5 years), changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period with a 5 year ramp up at the beginning and a 5 year ramp down at the end of the amortization period. Commencing with the 2014 valuation, all new gains or losses are tracked, and the net unamortized gain or loss is amortized over a fixed 30-year period with a 5 year ramp up at the beginning and a 5 year ramp down at the end of the amortization period. For the June 30, 2020 measurement date, the 2018 CalPERS Actuarial Amortization Policy specifies that all changes in liability due to plan amendments (other than golden handshakes which are amortized over 5 years), changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. Commencing with the 2019 valuation, all new gains or losses are tracked, and the net unamortized gain or loss is amortized over a fixed 20-year period with a 5 year ramp up at the beginning of the amortization period.
Asset Valuation Method:	Fair Value
Inflation:	2.50%
Salary Increases:	Varies by entry age and service
Payroll Growth:	2.75%
Investment Rate of Return:	7.15%

(Continued)

Retirement Age:	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality Rate Table:	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using Scale 90% of scale MP 2016 published by the Society of Actuaries.
Post Retirement Benefit Increase:	The lesser of the contract cost of living adjustment (COLA) or 2.50 percent until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50 percent thereafter.

The Mortality Rate Table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on the Mortality Rate Table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015).

All other actuarial assumptions used in the June 30, 2018 and 2019 valuations were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS' staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation used to measure the total pension liability. An expected inflation rate of 2.00 percent was used for real return years 1-10. For real return years 11+, an inflation rate of 2.92 percent was used.

(Continued)

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00%	4.80%	5.98%
Fixed income	28.00%	1.00%	2.62%
Inflation assets	-	0.77%	1.81%
Private equity	8.00%	6.30%	7.23%
Real assets	13.00%	3.75%	4.93%
Liquidity	1.00%	-	(0.92%)
Total	100.00%		

Subsequent Events

On November 15, 2021, the CalPERS Board of Administration selected a new asset allocation mix, effective July 1, 2022, that will guide the fund's investment portfolio for the next four years, while at the same time retaining the reduction of discount rate from 7.0% to 6.8%. Notable changes for employers include a decrease in median total employer contribution rates, from less than 1% in miscellaneous plans to a decrease of more than 2% in some safety plans. Contribution changes will take effect in fiscal year 2023-24 for public agencies.

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

The following presents the net pension liability of Covered California as of June 30, 2019, calculated using the discount rate of 7.15 percent, as well as what the pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan	$259,390,237	$182,041,545	$117,248,376

The following presents the net pension liability of Covered California as of June 30, 2020, calculated using the discount rate of 7.15 percent, as well as what the pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan	$288,242,530	$202,261,884	$130,202,213

Pension Plan Fiduciary Net Position

(Continued)

Each plan's fiduciary net position disclosed in the accounting valuation report provided by CalPERS may differ from the plan's assets reported in the funding actuarial valuation report due to several reasons; the accounting valuation report must keep items such as deficiency reserves and fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation report.

(b) Other Postemployment Benefits

Covered California adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) during the 2017-18 fiscal year. GASB 75 requires that the reported results pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes were used:

	2020	**2021**
Valuation date (VD)	June 30, 2019	June 30, 2020
Measurement date (MD)	June 30, 2019	June 30, 2020
Measurement period (MP)	July 1, 2018 to June 30, 2019	July 1, 2019 to June 30, 2020

Plan Description, Benefits Provided, and Employees Covered

Postretirement healthcare benefits are also provided to Covered California retirees through the programs sponsored by the State as administered by CalPERS and the California Department of Human Resources (CalHR). As the postretirement healthcare plan is sponsored by the State, it is considered a single-employer plan. Prior to FY17-18, the total other postemployment benefits (OPEB) actuarial accrued liability was reported at the State level.

Healthcare and dental benefits may be provided to members depending on the date hired and the member's years of credited service. Postretirement health benefits include medical, prescription drug, and dental benefits and were previously funded on a pay-as-you-go basis. Effective July 1, 2018 (FY18-19), both the employer and the employee are pre-funding OPEB. As part of the State response to COVID-19, the employee portion of prefunding was suspended as of July 1, 2020 for the fiscal years 2020-2021 and 2021-2022. With the State recovery from COVID-19, that has been renegotiated and employees resumed pre-funding in FY21-22.

Employer contributions for health premiums during fiscal years 2019-20 and 2020-21 maintained the 100/90 percent contribution formula established by Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of the weighted average excess of the two-party or family premium over

the single premium for the health benefits of each of the retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The

(Continued)

monthly contribution maximums for 2019-20 and 2020-21, respectively, were $734 and $767 for a single enrollee, $1,398 and $1,461 for an enrollee and one dependent, and $1,788 and $1,868 for an enrollee and two or more dependents. Dental premiums vary by plan and number of dependents. The contribution formulas are subject to approval and amendment by the legislature of the State. The actual amount of the contribution varies by employee type. If members are not fully vested, the healthcare and dental contributions will be prorated based on the years of service.

Contributions

Covered California paid approximately $12.1 million for postretirement health and dental benefits for retired members and prefunding for the year ended June 30, 2020 and $14.1 million for the year ended June 30, 2021. For the measurement dates ended June 30, 2019 and 2020 respectively, Covered California's cash contributions were approximately $9.9 million and $12.1 million in total payments, which were recognized as a reduction to the OPEB liability.

Net OPEB Liability

Covered California's net 2020 OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019. Covered California's net 2021 OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2020.

The following actuarial methods and assumptions were used:

Valuation Date:	For the 2020 report, June 30, 2019. For the 2021 report, June 30, 2020.
Measurement Date:	For the 2020 report, June 30, 2019. For the 2021 report, June 30, 2020.
Actuarial Cost Method:	For both periods, entry age normal cost in accordance with the requirements of GASB Statement No. 75
Actuarial Valuation Method:	For both periods, market value of assets
Actuarial Assumptions:	
Discount rate	Blended rate for each valuation group, consisting of 6.75% when assets are available to pay benefits, otherwise the 20 year fix-income municipal bond rate which was 3.13% for June 30, 2019 and 2.45% for June 30, 2020.

(Continued)

Inflation	For both periods, 2.25%.
Salary increases	For both periods, varies by entry age and service
Investment rate of return	For both periods, 6.75%.
Mortality rate	For both periods, the probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Mortality rates include 15 years of projected mortality improvements using Scale 90% of scale MP 2016 published by the Society of Actuaries.
Pre-retirement turnover	For both periods, the pre-retirement turnover information was derived from data collected during 1997 to 2015 CalPERS Experience Study dated December 2017. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.
Healthcare trend rates	The 2020 trend rates are based on actual premium increases from calendar 2019 to 2020. The preferred provider organization (PPO) per capita claim cost is assumed to be 4.0% for Pre-Medicare costs and 4.0% for Post-Medicare costs. For 2021 and beyond an initial trend rate of 7.5% was used for Pre-Medicare costs and Post-Medicare costs, decreasing each year over the next six years to a rate of 4.5%, which remains at 4.5% for ten years until the ultimate rate of 4.25% is reached in 2037. The 2021 trend rates are based on actual premium increases from calendar 2020 to 2021. The PPO per capita claim cost is assumed to be 6.0% for Pre-Medicare costs and 3.0% for Post-Medicare costs. For 2022 and beyond an initial trend rate of 7.5% was used for Pre-Medicare and Post-Medicare costs, decreasing each year over the next five years to a rate of 4.5%, which remains at 4.5% for ten years until the ultimate rate of 4.25% is reached in 2037.
Retirement age	For both periods, the probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the 2019 and 2020 measurement periods are summarized in the following table.

Asset Class	Current Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	59.00%	4.80%	5.98%
Fixed Income	25.00%	1.10%	2.62%
Treasury Inflation-Protected Securities	5.00%	0.25%	1.46%
Real Estate Investment Trusts (REITs)	8.00%	3.50%	5.00%
Commodities	3.00%	1.50%	2.87%
Total	100.00%		

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2019 and June 30, 2020 was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Agency contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in Assumptions

In 2019, the discount and interest rates were decreased from 7.00 percent to 6.75 percent. The inflation rate was decreased from 2.50 percent to 2.25 percent. In 2020, there were no changes in assumptions.

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Changes in the Net OPEB Liability

The changes in the net OPEB liability for the measurement date of June 30, 2019 are as follows:

	Increase (Decrease)		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balance at June 30, 2018	**$ 326,762,000**	**$ 2,000**	**$ 326,760,000**
Change in the year:			
Service cost	11,549,000	-	11,549,000
Interest on total OPEB liability	12,881,000	-	12,881,000
Difference between expected and actual experience	(4,922,000)	-	(4,922,000)
Employer Contributions-PayGo	-	9,177,000	(9,177,000)
Employer Contributions-Pre Funding	-	756,000	(756,000)
Employee Contributions	-	756,000	(756,000)
Changes of assumptions	11,618,000		11,618,000
Benefit payments	(9,177,000)	(9,177,000)	-
Investment Income	-	87,000	(87,000)
Proportionate Share Change and Allocation Basis Adjustment	(8,415,000)	-	(8,415,000)
Net changes	**13,534,000**	**1,599,000**	**11,935,000**
Balance at June 30, 2019	**$ 340,296,000**	**$ 1,601,000**	**$ 338,695,000**

(Continued)

The changes in the net OPEB liability for the measurement date of June 30, 2020 are as follows:

	Increase (Decrease)		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balance at June 30, 2019	**$ 340,296,000**	**$ 1,601,000**	**$ 338,695,000**
Change in the year:			
Service cost	12,558,000	-	12,558,000
Interest on total OPEB liability	13,222,000	-	13,222,000
Difference between expected and actual experience	(10,068,000)	-	(10,068,000)
Employer Contributions-PayGo	-	10,139,000	(10,139,000)
Employer Contributions-Pre Funding	-	1,939,000	(1,939,000)
Employee Contributions	-	1,939,000	(1,939,000)
Changes of assumptions	5,543,000	-	5,543,000
Benefit payments	(10,139,000)	(10,139,000)	-
Investment Income	-	109,000	(109,000)
Proportionate Share Change and Allocation Basis Adjustment	19,385,000	89,000	19,296,000
Administrative Expense	-	(2,000)	2,000
Net changes	**30,501,000**	**4,074,000**	**26,427,000**
Balance at June 30, 2020	**$ 370,797,000**	**$ 5,675,000**	**$ 365,122,000**

(Continued)

Sensitivity of the Net OPEB Liability to Changes in the Blended Discount Rate

The following represents the net OPEB liability of Covered California as of the measurement date ended June 30, 2019, calculated using the respective blended discount rate for each bargaining unit, as well as what the net OPEB liability would be if it were calculated using a rate that are 1 percentage-point lower or 1 percentage-point higher than the blended discount rate:

Blended Discount Rate -1%	Blended Discount Rate	Blended Discount Rate + 1%
$398,904,597	$338,695,000	$290,608,244

The following represents the net OPEB liability of Covered California as of the measurement date ended June 30, 2020, calculated using the respective blended discount rate for each bargaining unit, as well as what the net OPEB liability would be if it were calculated using a rate that are 1 percentage-point lower or 1 percentage-point higher than the blended discount rate:

Blended Discount Rate -1%	Blended Discount Rate	Blended Discount Rate + 1%
$432,245,075	$365,122,000	$311,695,841

Sensitivity of the Net OPEB Liability to Changes in the Health Care Trend Rates

The following presents the net OPEB liability of Covered California as of June 30, 2019, calculated using health care cost rates that are 1 percentage-point lower or 1 percentage-point higher than the current rate:

Health Cost Trend Rate -1%	Health Cost Trend Rate	Health Cost Trend Rate + 1%
$287,123,527	$338,695,000	$404,813,187

The following presents the net OPEB liability of Covered California as of June 30, 2020, calculated using health care cost rates that are 1 percentage-point lower or 1 percentage-point higher than the current rate:

Health Cost Trend Rate -1%	Health Cost Trend Rate	Health Cost Trend Rate + 1%
$318,738,881	$365,122,000	$424,721,512

OPEB Plan Fiduciary Net Position

CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. CalPERS' annual financial report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS web site at www.CalPERS.ca.gov.

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

The State Controller's Office (SCO) used the total amount of Covered California OPEB contributions as a proportion of the State's total contributions for each bargaining unit or valuation group, to provide Covered California's net OPEB liability and related GASB 75 accounting elements.

Covered California incurred a non-cash OPEB expense for the measurement period, June 30, 2019 (the measurement date) and June 30, 2020 (the measurement date) of $3,570,000 and $34,190,000, respectively.

As of the measurement date of June 30, 2019 and 2020, Covered California had deferred outflows and deferred inflows of resources related to OPEB as follows:

		2019		2020
Deferred Outflow of Resources				
OPEB Contributions Subsequent to Measurement Date	$	12,077,000	$	14,100,000
Change of Assumptions		10,416,000		13,777,000
Difference Between Expected and Actual Experience		263,000		310,000
Difference Between Expected and Actual Earnings Experience		-		107,000
Total	**$**	**22,756,000**	**$**	**28,294,000**
Deferred Inflow of Resources				
Change of Assumptions	$	(29,470,000)	$	(23,806,000)
Difference Between Expected and Actual Experience		(25,105,000)		(29,975,000)
Difference Between Expected and Actual Earnings Experience		(28,000)		(22,000)
Total	$	**(54,603,000)**	**$**	**(53,803,000)**

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources related to OPEB will be recognized in future pension expense as follows:

Measurement Period ended June 30:		**Deferred Outflows of Resources**
2021	$	11,443,000
2022		11,442,000
2023		10,281,000
2024		5,742,000
2025		64,000
Thereafter		637,000
Total	$	39,609,000

The actuarial valuation report for OPEB can be obtained by writing to the Office of the State Controller, P.O. Box 942850, Sacramento, California 94250 or by visiting the State Controller's website at www.SCO.ca.gov.

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(7) Commitments and Contingencies

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in China, and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S. including California, have declared a state of emergency.

Potential impacts to the Covered California's future revenues include disruptions or restrictions on the Agency's current employees' ability to work. Any of the foregoing could negatively impact revenues and the Agency currently cannot anticipate all of the ways in which this health epidemic, COVID-19 could adversely impact the government agency. Although the Agency is continuing to monitor and assess the effects of the COVID-19 pandemic on the government agency, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

As of June 30, 2021, Covered California has outstanding commitments of $85.1 million related primarily to information technology projects.

(8) Risk Management

Covered California is self-insured through the State Department of General Services (DGS) Office of Risk and Insurance Management (ORIM) for risks of employee errors and omissions, business interruption, and comprehensive insurance. The ORIM provides risk management and insurance services to state and other public entities on an ongoing or project-specific basis. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. All claims are on a "pay-as-you-go" basis.

Liabilities for workers' compensation costs are accrued based on estimates derived from the State Compensation Insurance Fund. This estimate is based on actuarial reviews of employee workers' compensation program and includes indemnity payments, compensation benefits, and leave benefits. The liability for workers' compensation is not material to the financial statements as a whole.

(9) Subsequent Events

In September 2021, Covered California received a federal award of $1.1 million from Centers for Medicare & Medicaid Services (CMS) per Section 2801 of the American Rescue Plan Act of 2021. This cooperative agreement for modernization is to be used during the project period September 9, 2021 through September 9, 2022.

In December 2021, Covered California received $542 thousand from the State of California General Fund per Section 11.90(c), Chapter 21, Statutes of 2021. This receipt was from a reallocation of federal funds in the State Coronavirus Relief Fund to be used as a reimbursement of payroll costs incurred by employees redirected to COVID-19 contact tracing and vaccination activities in 2020-2021.

Covered California has evaluated all events through July 26, 2022, and noted no other items requiring disclosure in these financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and June 30, 2021

SCHEDULE OF COVERED CALIFORNIA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2015	2016	2017	2018	2019
Covered California's Proportion of the Net Pension Liability	0.224583%	0.428616%	0.500055%	0.481857%	0.517062%
Covered California's Proportionate Share of the Net Pension Liability	$ 53,473,665	$ 121,049,500	$ 165,589,315	$ 176,047,944	$ 162,432,133
Covered California's Covered Payroll	$ 22,502,642	$ 45,608,536	$ 55,957,084	$ 55,854,234	$ 63,362,515
Covered California's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	237.63%	265.41%	295.92%	315.19%	256.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.17%	70.68%	66.81%	66.42%	71.83%

(1) Amounts presented were determined as of June 30th of the prior fiscal year.
(2) Data is being accumulated annually to present 10 years of the reported information.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact from plan changes which occurred after June 30, 2018.

Changes of Assumptions: In 2014 amounts reported were based on the 7.50 percent discount rate. In 2015, amounts reported reflect an adjustment of the discount rate from 7.50 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2016, there were no changes. In 2017 the discount rate was reduced from 7.65 percent to 7.15 percent. In 2018 demographic assumptions and inflation rates were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2019 and 2020, there were no changes.

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and June 30, 2021

SCHEDULE OF COVERED CALIFORNIA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2020	2021
Covered California's Proportion of the Net Pension Liability	0.541209%	0.581853%
Covered California's Proportionate Share of the Net Pension Liability	$ 182,041,545	$ 202,261,884
Covered California's Covered Payroll	$ 69,890,529	$ 79,013,423
Covered California's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	260.47%	255.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.34%	71.51%

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and June 30, 2021

SCHEDULE OF PLAN CONTRIBUTIONS PENSION

	2015	2016	2017	2018	2019
Actuarially Determined Contribution	$ 11,090,990	$ 14,066,553	$ 14,920,905	$ 35,345,764	$ 20,541,282
Contribution in Relation to the Actuarially Determined Contribution	(11,090,990)	(14,066,553)	(14,920,905)	(35,345,764)	(20,541,282)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 22,506,125	$ 45,608,536	$ 55,957,084	$ 55,854,234	$ 63,362,515
Contributions as a Percentage of Covered Payroll	49.28%	30.84%	26.66%	63.28%	32.42%

(1) Data is being accumulated annually to present 10 years of the reported information.

Notes to Schedule:

Valuation Date	June 30, 2018
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll
Asset valuation method	Market value of assets
Inflation	2.50%
Payroll growth	2.75%
Investment rate of return (net of pension investment and administrative expenses; includes inflation)	7.00%
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997-2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period 1997-2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and 2021

SCHEDULE OF PLAN CONTRIBUTIONS PENSION

	2020	2021
Actuarially Determined Contribution	$ 24,348,721	$ 22,791,722
Contribution in Relation to the Actuarially Determined Contribution	(24,348,721)	(22,791,722)
Contribution Deficiency (Excess)	$ -	$ -
Covered Payroll	$ 69,890,529	$ 79,013,423
Contributions as a Percentage of Covered-Employee Payroll	34.84%	28.85%

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and 2021

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

	2018	2019	2020	2021
Total OPEB Liability				
Service cost	$ 13,400,000	$ 12,441,000	$ 11,549,000	$ 12,558,000
Interest on the total OPEB liability	11,022,000	13,921,000	12,881,000	13,222,000
Changes in benefit terms	-	-	-	-
Difference between expected and actual experience	-	(28,300,000)	(4,922,000)	(10,068,000)
Employer contributions	-	575,000	-	-
Changes in assumptions	(32,107,000)	(12,877,000)	11,618,000	5,543,000
Benefit payments	(7,060,000)	(8,529,000)	(9,177,000)	(10,139,000)
Proportionate Share Change and Allocation Basis Adjustment	-	41,380,000	(8,415,000)	19,385,000
Net change in total OPEB liability	**(14,745,000)**	**18,611,000**	**13,534,000**	**30,501,000**
Total OPEB liability - beginning	**322,896,000**	**308,151,000**	**326,762,000**	**340,296,000**
Total OPEB liability - ending (a)	**$ 308,151,000**	**$ 326,762,000**	**$ 340,296,000**	**$ 370,797,000**
Plan Fiduciary Net Position				
Employer Contributions-PayGo	$ 7,063,000	$ 8,529,000	$ 9,177,000	$ 10,139,000
Employer Contributions-Pre Funding	-	-	756,000	1,939,000
Employee Contributions	-	-	756,000	1,939,000
Net investment income	-	-	87,000	109,000
Benefit payments	(7,060,000)	(8,529,000)	(9,177,000)	(10,139,000)
Administrative expense	-	-	-	(2,000)
Proportionate Share Change and Allocation Basis Adjustment	-	(3,000)	-	89,000
Other	-	2,000	-	-
Net change in plan fiduciary net position	**3,000**	**(1,000)**	**1,599,000**	**4,074,000**
Plan fiduciary net position - beginning	**-**	**3,000**	**2,000**	**1,601,000**
Plan fiduciary net position - ending (b)	**$ 3,000**	**$ 2,000**	**$ 1,601,000**	**$ 5,675,000**
Net OPEB Liability/(Assets) - ending (a) - (b)	**$ 308,148,000**	**$ 326,760,000**	**$ 338,695,000**	**$ 365,122,000**
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.47%	1.53%
Covered-employee payroll	$ 55,854,234	$ 86,743,694	$ 98,343,086	$ 112,986,169
Net OPEB liability as a percentage of covered-employee payroll	551.70%	376.70%	344.40%	323.16%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

Notes to Schedule:

Changes in Assumptions: In 2018, demographic assumptions were changed in accordance with the CalPERS Experience Study and Review of Assumptions of December 2017. The discount rate and interest rates were decreased from 7.28 percent to 7.00 percent. The inflation rate was decreased from 2.75 percent to 2.50 percent. In 2019, the discount and interest rates were changed from 7.00 percent to 6.75 percent. The inflation rate was changed from 2.50 percent to 2.25 percent. In 2020, there were no changes.

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and 2021

SCHEDULE OF CONTRIBUTIONS – OPEB

	2018	2019	2020	2021
Actuarially Determined Contribution	$ 7,401,000	$ 9,931,000	$ 12,077,000	$ 14,100,000
Contribution in Relation to the Actuarially Determined Contributions	(7,401,000)	(9,931,000)	(12,077,000)	(14,100,000)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 55,854,234	$ 86,743,694	$ 98,343,086	$ 112,986,169
Contributions as a percentage of covered-employee payroll	13.25%	11.45%	12.28%	12.48%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

Notes to Schedule:

Actuarial methods and assumptions used to set the actuarially determined contribution for Fiscal Year were from Actuarial Valuation dated June 2020.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry age normal cost, level percent of pay
Actuarial Valuation Method	Market value of assets
Inflation	2.25%
Payroll Growth	2.50%
Investment Rate of Return	6.75%
Healthcare Cost-Trend Rates	Trend rates are based on actual premium increases from calendar 2020 to 2021. The PPO per capital claim cost is assumed to be 6.0% for Pre-Medicare costs and 3.0% Post-Medicare costs. For 2022 and beyond an initial trend rate of 7.5% for Pre-Medicare and Post Medicare costs was used, decreasing over the next five years to a rate of 4.5%, which remains at 4.5 % for ten years until the ultimate rate of 4.25% is reached in 2037.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using Scale 90% of scale MP 2016 published by the Society of Actuaries.

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

To the Board of Directors
California Health Benefit Exchange
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Health Benefit Exchange (Covered California) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Covered California's basic financial statements, and have issued our report thereon dated July 26, 2022.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

To the Board of Directors
California Health Benefit Exchange
Sacramento, California

Purpose of this Report

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

Lance, Soll & Lunghard, LLP

Sacramento, California
July 26, 2022