



Report of Independent Auditors and Financial Statements with
Supplementary Information

**Orange County Health Authority, A Public Agency dba
Orange Prevention and Treatment Integrated Medical
Assistance dba CalOptima Health**

June 30, 2023 and 2022

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Management's Discussion and Analysis

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Management's Discussion and Analysis**

The intent of management's discussion and analysis of CalOptima Health's financial performance is to provide readers with an overview of the agency's financial activities for the fiscal years ended June 30, 2023, 2022, and 2021. Readers should review this summation in conjunction with CalOptima Health's financial statements and accompanying notes to the financial statements to enhance their understanding of CalOptima Health's financial performance.

Key Operating Indicators

The table below compares key operating indicators for CalOptima Health for the fiscal years ended June 30, 2023, 2022, and 2021:

Key Operating Indicators	2023	2022	2021
Members (at end of fiscal period)			
Medi-Cal program	\$ 970,590	\$ 897,134	\$ 825,076
OneCare	17,687	2,668	1,934
OneCare Connect	-	14,415	14,833
PACE	439	429	398
Average member months			
Medi-Cal program	940,893	859,290	793,023
OneCare	17,443	2,342	1,669
OneCare Connect	14,360	14,682	14,704
PACE	434	417	389
Operating revenues (in millions)	\$ 4,239	\$ 4,227	\$ 4,148
Operating expenses (in millions)			
Medical expenses	3,862	3,946	3,729
Administrative expenses	192	150	141
Operating income (in millions)	<u>\$ 184</u>	<u>\$ 131</u>	<u>\$ 278</u>
Operating revenues PMPM (per member per month)	\$ 369	\$ 402	\$ 427
Operating expenses PMPM			
Medical expenses PMPM	336	375	384
Administrative expenses PMPM	17	14	15
Operating income PMPM	<u>\$ 16</u>	<u>\$ 13</u>	<u>\$ 28</u>
Medical loss ratio	91%	93%	90%
Administrative expenses ratio	4.5%	3.6%	3.4%
Premium tax revenue and expenses not included above			
Operating revenues (in millions)	\$ 90	\$ 168	\$ 154
Administrative expenses (in millions)	\$ 92	\$ 166	\$ 150

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Overview of the Financial Statements

This annual report consists of financial statements and notes to those statements, which reflect CalOptima Health's financial position as of June 30, 2023, 2022, and 2021, and the results of its operations for the fiscal years ended June 30, 2023, 2022, and 2021. The financial statements of CalOptima Health, including the statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows, represent the accounts and transactions of the five (5) lines of business – Medi-Cal, OneCare, OneCare Connect, Program of All-Inclusive Care for the Elderly (PACE), and Multipurpose Senior Services Program (MSSP).

- The statements of net position include all of CalOptima Health's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, as well as an indication about which assets and deferred outflows of resources are utilized to fund obligations to providers and which are restricted as a matter of the CalOptima Health Board of Directors (Board) policy.
- The statements of revenues, expenses, and changes in net position present the results of operating activities during the fiscal years and the resulting increase or decrease in net position.
- The statements of cash flows report the net cash provided by or used in operating activities, as well as other sources and uses of cash from investing, capital, and related financing activities.

The following discussion and analysis addresses CalOptima Health's overall program activities. CalOptima Health's Medi-Cal program accounted for 89.8 percent, 90.0 percent, and 90.2 percent of its annual revenues during fiscal years 2023, 2022, and 2021, respectively. CalOptima Health's OneCare program accounted for 5.1 percent, 0.9 percent, and 0.6 percent of its annual revenues during fiscal years 2023, 2022, and 2021, respectively. CalOptima Health's OneCare Connect program accounted for 4.1 percent, 8.1 percent, and 8.3 percent of its annual revenues during fiscal years 2023, 2022, and 2021, respectively. All other programs in aggregate accounted for 1.1 percent, 1.0 percent, and 0.9 percent of CalOptima Health's annual revenues during fiscal years 2023, 2022, and 2021, respectively.

2023 and 2022 Financial Highlights

As of June 30, 2023 and 2022, total assets and deferred outflows of resources were approximately \$3,624.3 million and \$3,025.6 million, respectively, and exceeded liabilities and deferred inflows of resources by approximately \$1,670.0 million and \$1,419.5 million, respectively.

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Net position increased by approximately \$250.5 million, or 17.6 percent, during fiscal year 2023 and increased by approximately \$110.7 million, or 8.5 percent, during fiscal year 2022.

Table 1a: Condensed Statements of Net Position as of June 30,
(Dollars in Thousands)

Financial Position	2023	(As restated) 2022	Change from 2022	
			Amount	Percentage
ASSETS				
Current assets	\$ 2,937,296	\$ 2,337,407	\$ 599,889	25.7%
Board-designated assets and restricted cash	576,852	611,428	(34,576)	-5.7%
Capital assets, net	66,189	66,864	(675)	-1.0%
Intangible right-to-use subscription asset	18,018	261	17,757	100.0%
Total assets	3,598,355	3,015,960	582,395	19.3%
DEFERRED OUTFLOWS OF RESOURCES				
	25,969	9,626	16,343	169.8%
Total assets and deferred outflows of resources	\$ 3,624,324	\$ 3,025,586	\$ 598,738	19.8%
LIABILITIES				
Current liabilities	\$ 1,871,529	\$ 1,551,389	\$ 320,140	20.6%
Other liabilities	59,440	22,756	36,684	161.2%
Subscription liability, net of current portion	12,173	141	12,032	100.0%
Total liabilities	1,943,142	1,574,286	368,856	23.4%
DEFERRED INFLOWS OF RESOURCES				
	11,176	31,790	(20,614)	-64.8%
NET POSITION				
Net investment in capital assets	66,134	66,772	(638)	-1.0%
Restricted by legislative authority	107,969	107,346	623	0.6%
Unrestricted	1,495,903	1,245,392	250,511	20.1%
Total net position	1,670,006	1,419,510	250,496	17.6%
Total liabilities, deferred inflows of resources, and net position	\$ 3,624,324	\$ 3,025,586	\$ 598,738	19.8%

Current assets increased \$599.9 million from \$2,337.4 million in 2022 to \$2,937.3 million in 2023, primarily in cash and investments. Cash and investments had a net increase of \$575.8 million primarily from increased enrollment and premium capitation rates. Current liabilities increased \$320.1 million from \$1,551.4 million in 2022 to \$1,871.5 million in 2023 driven primarily by payables due to the State of California (the "State") for the COVID-19 risk corridor for the period of July 1, 2019 through April 30, 2023, the Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) risk corridors for the period of January 1, 2021 through June 30, 2023, and the Enhanced Care Management (ECM) risk corridor for the period of January 1, 2022 through June 30, 2023. In May 2023, the State finalized the Bridge Period (July 1, 2019 through December 31, 2020) Proposition 56 risk corridor and a payment was remitted to the State on June 2023 in the amount of \$74.5 million.

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Board-designated assets and restricted cash decreased by \$34.6 million and \$34.6 million in fiscal years 2023 and 2022, respectively, primarily driven by changes to the portfolio's valuation. In addition to the existing Board-designated reserve, the Board designated \$100.0 million in total funding for homeless health initiatives (HHI) on April 4, 2019. On September 1, 2022, the Board approved a reallocation of the remaining \$40.1 million from HHI to the state Housing and Homelessness Incentive Program initiatives. As of June 30, 2023, the balance of the HHI reserve was \$21.0 million.

The Board's policy is to augment the rest of the Board-designated assets to provide a desired level of funds between 1.4 months and 2.0 months in consolidated capitation revenue to meet future contingencies. CalOptima Health's reserve level of Tier One and Tier Two investment portfolios as of June 30, 2023, is at 1.78 times the monthly average consolidated capitation revenue.

CalOptima Health is also required to maintain a \$300,000 restricted deposit as a part of the Knox-Keene Health Care Service Plan Act of 1975 (the "Act").

2022 and 2021 Financial Highlights

As of June 30, 2022 and 2021, total assets and deferred outflows of resources were approximately \$3,025.5 million and \$2,540.8 million, respectively, and exceeded liabilities and deferred inflows of resources by approximately \$1,419.5 million and \$1,308.8 million, respectively.

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Net position increased by approximately \$110.7 million, or 8.5 percent, during fiscal year 2022 and increased by approximately \$283.7 million, or 27.7 percent, during fiscal year 2021.

Table 1b: Condensed Statements of Net Position as of June 30,
(Dollars in Thousands)

Financial Position	(As restated)		Change from 2021	
	2022	2021	Amount	Percentage
ASSETS				
Current assets	\$ 2,337,407	\$ 1,834,119	\$ 503,288	27.4%
Board-designated assets and restricted cash	611,428	645,979	(34,551)	-5.3%
Capital assets, net	66,864	45,728	21,136	46.2%
Intangible right-to-use subscription asset	261	-	261	0.0%
Total assets	3,015,960	2,525,826	490,134	19.4%
DEFERRED OUTFLOWS OF RESOURCES				
	9,626	14,992	(5,366)	-35.8%
Total assets and deferred outflows of resources	\$ 3,025,586	\$ 2,540,818	\$ 484,768	19.1%
LIABILITIES				
Current liabilities	\$ 1,551,389	\$ 1,165,444	\$ 385,945	33.1%
Other liabilities	22,756	62,230	(39,474)	-63.4%
Subscription liability, net of current portion	141	-	141	0.0%
Total liabilities	1,574,286	1,227,674	346,612	28.2%
DEFERRED INFLOWS OF RESOURCES				
	31,790	4,363	27,427	628.6%
NET POSITION				
Net investment in capital assets	66,772	45,601	21,171	46.4%
Restricted by legislative authority	107,346	101,509	5,837	5.8%
Unrestricted	1,245,392	1,161,671	83,721	7.2%
Total net position	1,419,510	1,308,781	110,729	8.5%
Total liabilities, deferred inflows of resources, and net position	\$ 3,025,586	\$ 2,540,818	\$ 484,768	19.1%

Current assets increased \$503.3 million from \$1,834.1 million in 2021 to \$2,337.4 million in 2022, primarily in cash and investments. Cash and investments had a net increase of \$490.7 million primarily from increased enrollment and premium capitation rates. Current liabilities increased \$385.9 million from \$1,165.4 million in 2021 to \$1,551.4 million in 2022 driven primarily by payables due to the State for the COVID-19 (previously called Gross Medical Expense (GME)) risk corridor for the period of July 1, 2019 through June 30, 2022, the Proposition 56 risk corridors for the period of July 1, 2019 through June 30, 2022, and the ECM risk corridor for the period of January 1, 2022 through June 30, 2022.

Board-designated assets and restricted cash decreased by \$34.6 million and increased by \$3.6 million in fiscal years 2022 and 2021, respectively, primarily driven by a portfolio valuation change. In addition to the existing Board-designated reserve, the Board designated \$100.0 million in total funding for HHI on April 4, 2019. As of June 30, 2022, the balance of the HHI reserve was \$40.6 million.

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The Board’s policy is to augment the rest of the Board-designated assets to provide a desired level of funds between 1.4 months and 2.0 months of consolidated capitation revenue to meet future contingencies. CalOptima Health’s reserve level of Tier One and Tier Two investment portfolios as of June 30, 2022, was at 1.75 times of monthly average consolidated capitation revenue.

CalOptima Health’s Board-designated assets also include the requirement to maintain a \$300,000 restricted deposit as a part of the Knox-Keene Health Care Service Plan Act of 1975 (the “Act”).

2023 and 2022 Results of Operations

CalOptima Health’s fiscal year 2023 operating and non-operating revenues resulted in a \$250.5 million increase in net position, \$139.8 million more compared to a \$110.7 million increase in fiscal year 2022. The following table reflects the changes in revenues and expenses for 2023 compared to 2022:

Table 2a: Revenues, Expenses, and Changes in Net Position for
Fiscal Years Ended June 30,
(Dollars in Thousands)

Results of Operations	2023	(As restated) 2022	Change from 2022	
			Amount	Percentage
PREMIUM REVENUES	\$ 4,239,833	\$ 4,227,259	\$ 12,574	0.3%
Total operating revenues	<u>4,239,833</u>	<u>4,227,259</u>	<u>12,574</u>	<u>0.3%</u>
MEDICAL EXPENSES	3,862,196	3,945,849	(83,653)	-2.1%
ADMINISTRATIVE EXPENSES	192,339	150,443	41,896	27.8%
Total operating expenses	<u>4,054,535</u>	<u>4,096,292</u>	<u>(41,757)</u>	<u>-1.0%</u>
OPERATING INCOME	185,298	130,967	54,331	41.5%
NONOPERATING REVENUES AND EXPENSES	65,198	(20,238)	85,436	-422.2%
Increase in net position	250,496	110,729	139,767	126.2%
NET POSITION, beginning of year	<u>1,419,510</u>	<u>1,308,781</u>	<u>110,729</u>	<u>8.5%</u>
NET POSITION, end of year	<u>\$ 1,670,006</u>	<u>\$ 1,419,510</u>	<u>\$ 250,496</u>	<u>17.6%</u>

2023 and 2022 Operating Revenues

The increase in operating revenues of \$12.6 million in fiscal year 2023 is primarily attributable to an increase in enrollment of 11.0 percent which resulted in additional revenue of \$216.4 million and \$50.0 million in revenue from programs such as the HHIP, California Advancing and Innovating Medi-Cal (CalAIM) Incentive Payment Program (IPP), and Student Behavioral Health Incentive Program (SBHIP). The increase in revenue is offset by net additional payables due to the State for the COVID-19, Proposition 56, and ECM risk corridor estimates.

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2023 and 2022 Medical Expenses

Provider capitation, comprised of capitation payments to CalOptima Health's contracted health networks, increased by 8.4 percent from fiscal year 2022 to fiscal year 2023. Capitated member enrollment accounted for approximately 73.4 percent of CalOptima Health's enrollment, averaging 690,882 members during fiscal year 2023 and approximately 75.0 percent of CalOptima Health's enrollment, averaging 644,579 members during fiscal year 2022. Included in the capitated environment are 232,786 or 33.7 percent and 212,078 or 32.9 percent members in a shared risk network for fiscal years 2023 and 2022, respectively. Shared risk networks receive capitation for professional services and are claims-based for hospital services.

Provider capitation expenses totaled \$1,155.2 million in fiscal year 2023, compared to \$1,226.2 million in fiscal year 2022. The decrease reflects adjustments for Proposition 56 estimated accruals due to an updated logic that impacted prior years.

Claims expenses to providers and facilities, including long-term care (LTC) services, increased by 14.6 percent from fiscal year 2022 to fiscal year 2023 due to the release of In-Home Supportive Services (IHSS) estimates in fiscal year 2022 increased utilization from higher enrollment.

Prescription drug expenses decreased by \$348.5 million due to the State's transition of pharmacy benefits to Medi-Cal Fee-for-Service beginning January 1, 2022.

In addition to the items mentioned above, total quality assurance fee (QAF) payments received and passed through to hospitals decreased from \$146.4 million to \$0 from fiscal year 2022 to fiscal year 2023 due to the State's timing for QAF payments. These receipts and payments are not included in the statements of revenues, expenses, and changes in net position.

2023 and 2022 Administrative Expenses

Total administrative expenses were \$192.3 million in 2023 compared to \$150.4 million in 2022. Overall administrative expenses increased by 27.8 percent or \$41.9 million, primarily due to an increase in filled positions, cost of living and other salary adjustments, and adoption of the Government Accounting Standards Board (GASB) Statement No. 96 for Subscription-Based Information Technology Arrangements. In fiscal years 2023 and 2022, CalOptima Health's administrative expenses were 4.5 percent and 3.6 percent of total operating revenues, respectively.

2023 and 2022 Non-Operating Revenues and Expenses

Non-operating revenue and expenses increased by \$85.4 million from a loss of \$20.2 million in fiscal year 2022 to income of \$65.2 million in fiscal year 2023. The increase is driven primarily by net investment income in fiscal year 2023 of \$90.4 million, an increase of \$110.8 million from a net investment loss of \$20.4 million in fiscal year 2022. The amount is offset by an increase in grant expenses of \$25.5 million, from \$121 thousand in fiscal year 2022 to \$25.5 million in fiscal year 2023.

The Board and management have been accelerating efforts to improve access and quality of health care for the most vulnerable residents in Orange County. Those efforts included increasing the number of community investment grants released in the recent fiscal years.

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2022 and 2021 Results of Operations

CalOptima Health's fiscal year 2022 operating and non-operating revenues resulted in a \$110.7 million increase in net position, \$172.9 million less compared to a \$283.7 million increase in fiscal year 2021. The following table reflects the changes in revenues and expenses for 2022 compared to 2021:

Table 2b: Revenues, Expenses, and Changes in Net Position for
Fiscal Years Ended June 30,
(Dollars in Thousands)

Results of Operations	(As restated)		Change from 2021	
	2022	2021	Amount	Percentage
PREMIUM REVENUES	\$ 4,227,259	\$ 4,148,336	\$ 78,923	1.9%
Total operating revenues	4,227,259	4,148,336	78,923	1.9%
MEDICAL EXPENSES	3,945,849	3,729,469	216,380	5.8%
ADMINISTRATIVE EXPENSES	150,443	141,166	9,277	6.6%
Total operating expenses	4,096,292	3,870,635	225,657	5.8%
OPERATING INCOME	130,967	277,701	(146,734)	-52.8%
NONOPERATING REVENUES AND EXPENSES	(20,237)	5,949	(26,186)	-440.2%
Increase in net position	110,730	283,650	(172,920)	-61.0%
NET POSITION, beginning of year	1,308,781	1,025,131	283,650	27.7%
NET POSITION, end of year	\$ 1,419,511	\$ 1,308,781	\$ 110,730	8.5%

2022 and 2021 Operating Revenues

The increase in operating revenues of \$78.9 million in fiscal year 2022 is primarily attributable to an increase in enrollment of 8.6 percent which resulted in additional revenue of \$162.0 million and increases in premium capitation rates for new programs, such as ECM, Community Supports, and COVID-19 testing and treatment services. The increase in revenue is offset by additional payables due to the State for the COVID-19, Proposition 56, and ECM risk corridor estimates.

2022 and 2021 Medical Expenses

Medi-Cal capitation, comprised of capitation payments to CalOptima Health's contracted health networks, increased by 8.3 percent from fiscal year 2021 to fiscal year 2022. Capitated member enrollment accounted for approximately 75.0 percent of CalOptima Health's enrollment, averaging 644,579 members during fiscal year 2022, and 75.0 percent of CalOptima Health's enrollment, averaging 595,103 members during fiscal year 2021. Included in the capitated environment are 212,078 or 32.9 percent and 192,076 or 32.3 percent members in a shared risk network for fiscal years 2022 and 2021, respectively. Shared risk networks receive capitation for professional services and are claims-based for hospital services.

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Medi-Cal capitation expenses totaled \$1,226.2 million in fiscal year 2022, compared to \$1,170.0 million in fiscal year 2021. The increase reflects additional capitation expenses primarily due to increases in enrollment as the State paused redetermination of eligibility during the public health emergency.

Claims expense to providers and facilities, including LTC services, increased by 24.9 percent from fiscal year 2021 to fiscal year 2022 due to the release of IHSS estimates in fiscal year 2021 and increased utilization from higher enrollment.

Prescription drug expenses decreased by 45.0 percent in fiscal year 2022 compared to fiscal year 2021, primarily due to the State's transition of pharmacy benefits to Medi-Cal Fee-for-Service beginning January 1, 2022.

In addition to items mentioned above, total quality assurance fee (QAF) payments received and passed through to hospitals decreased from \$209.1 million to \$146.4 million from fiscal year 2021 to fiscal year 2022. These receipts and payments are not included in the statements of revenues, expenses, and changes in net position.

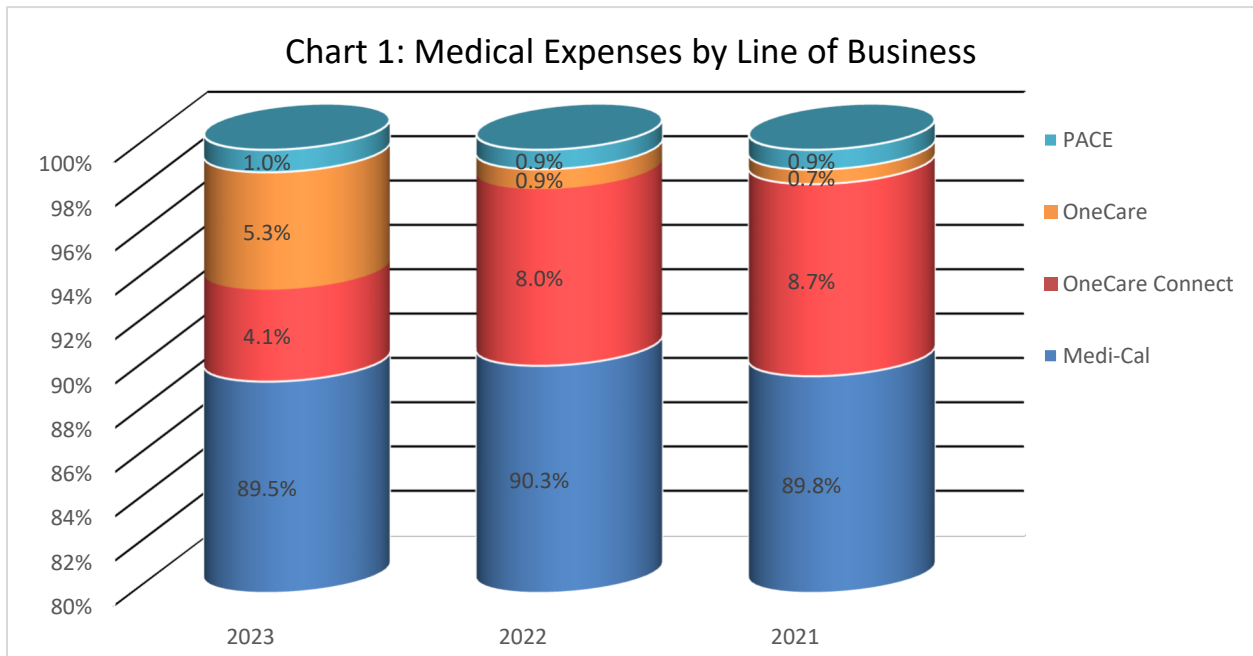
2022 and 2021 Administrative Expenses

Total administrative expenses were \$150.4 million in 2022 compared to \$141.2 million in 2021. Overall administrative expenses increased by 6.6 percent or \$9.3 million, primarily due to non-salary and wages expense categories. In fiscal years 2022 and 2021, CalOptima Health's administrative expenses were 3.6 percent and 3.4 percent of total operating revenues, respectively.

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2023, 2022, and 2021 Medical Expenses by Line of Business

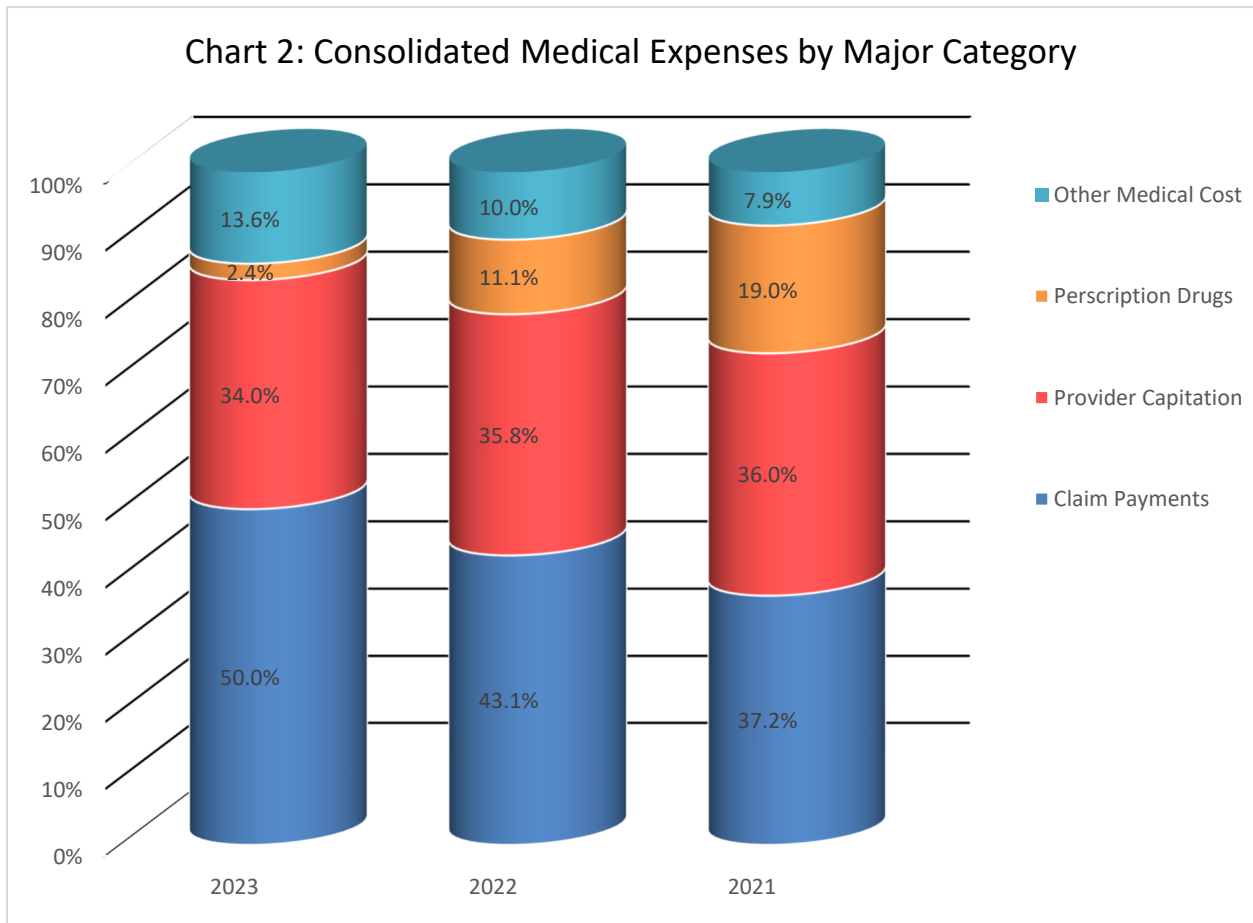
Below is a comparison chart of total medical expenses by line of business and their respective percentages of the overall medical expenditures by fiscal year.



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2023, 2022, and 2021 Medical Expenses by Major Category

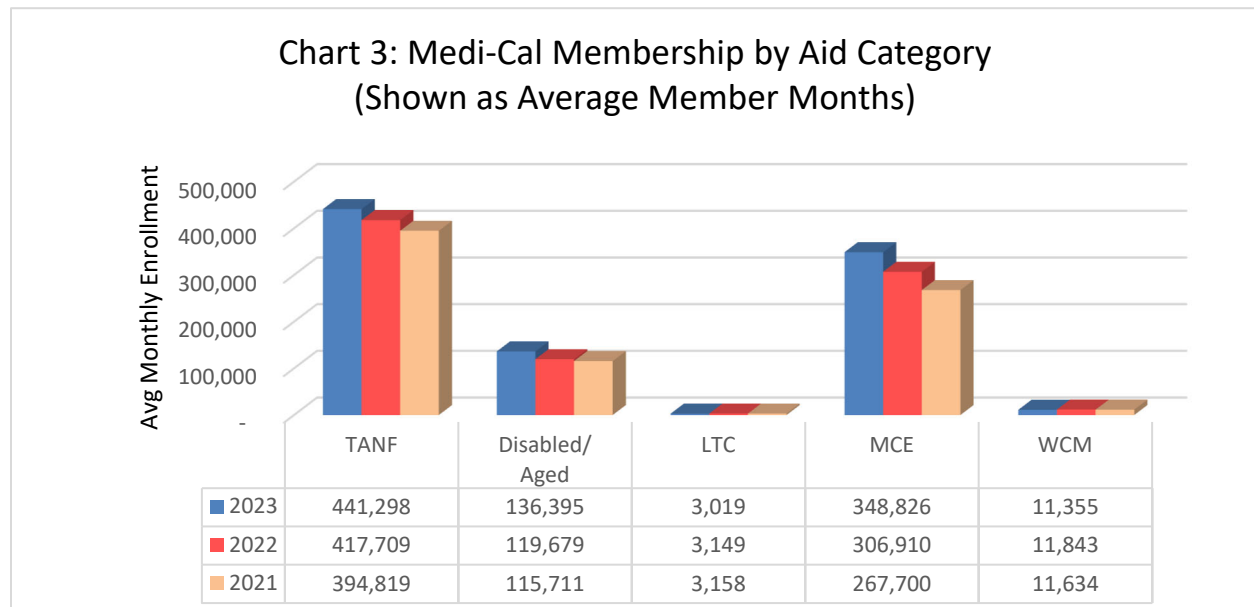
Below is a comparison chart of medical expenses by major category and their respective percentages of the overall medical expenditures by fiscal year.



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2023, 2022, and 2021 Enrollment

During fiscal year 2023, CalOptima Health served an average of 940,893 Medi-Cal members per month compared to an average of 859,290 members per month in 2022 and 793,023 members per month in 2021. The increase is attributed to the State’s pause in Medi-Cal eligibility redetermination which began at the beginning of the COVID-19 pandemic in March 2020 and expired on May 11, 2023. The chart below displays a comparative view of average monthly membership by Medi-Cal aid category during 2023, 2022, and 2021.



Significant aid categories are defined as follows:

Temporary Assistance to Needy Families (TANF) includes families, children, and poverty-level members who qualify for the TANF federal welfare program, which provides cash aid and job-search assistance to poor families. TANF also includes members who migrated from CalOptima Health, Health Net, and Kaiser Healthy Family programs.

Disabled and Aged includes individuals who have met the criteria for disability set by the Social Security Administration, and individuals of 65 years of age and older who receive supplemental security income (SSI) checks, or are medically needy, or have an income of 100 percent or less of the federal poverty level.

LTC includes frail elderly adults, nonelderly adults with disabilities, and children with developmental disabilities and other disabling conditions that require LTC services.

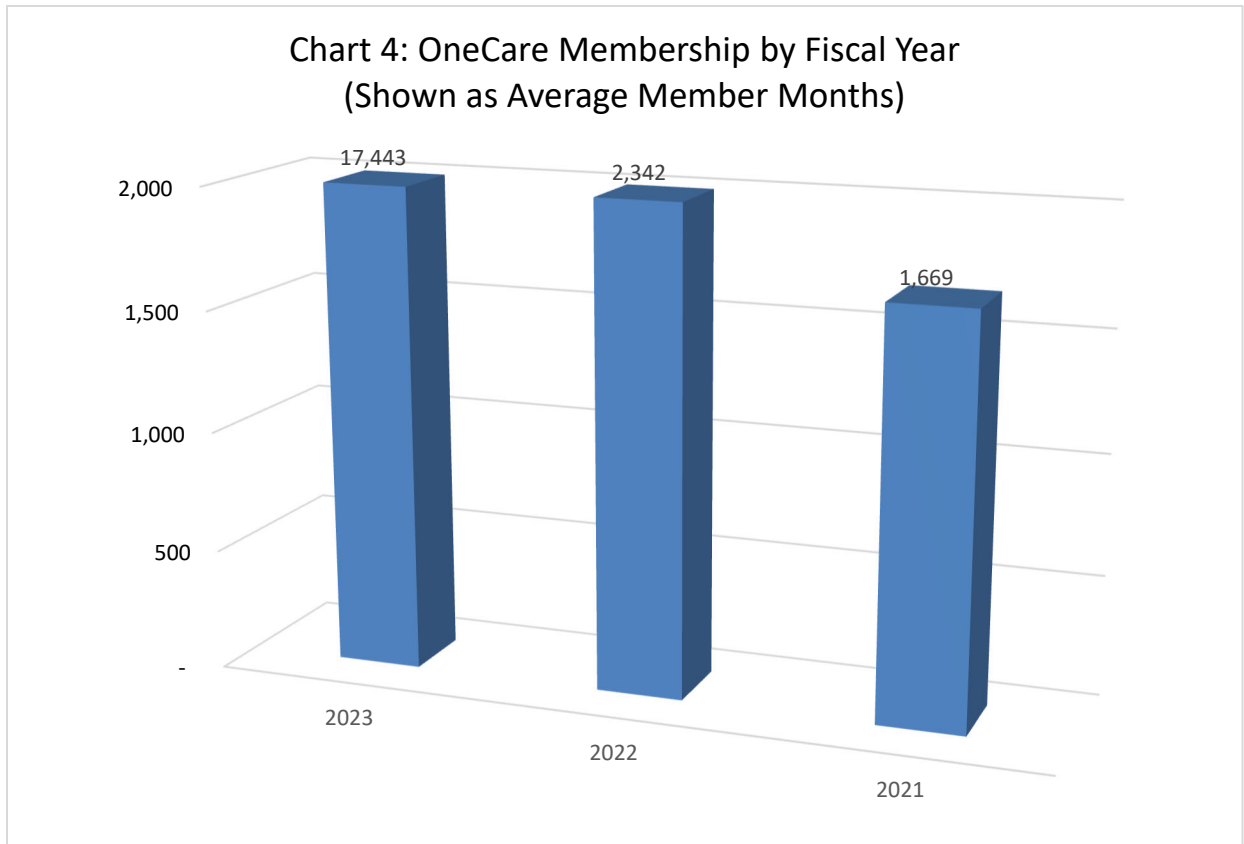
Medi-Cal Expansion (MCE) program includes adults without children, ages 19–64, who qualify based upon income, as required by the Patient Protection and Affordable Care Act (ACA).

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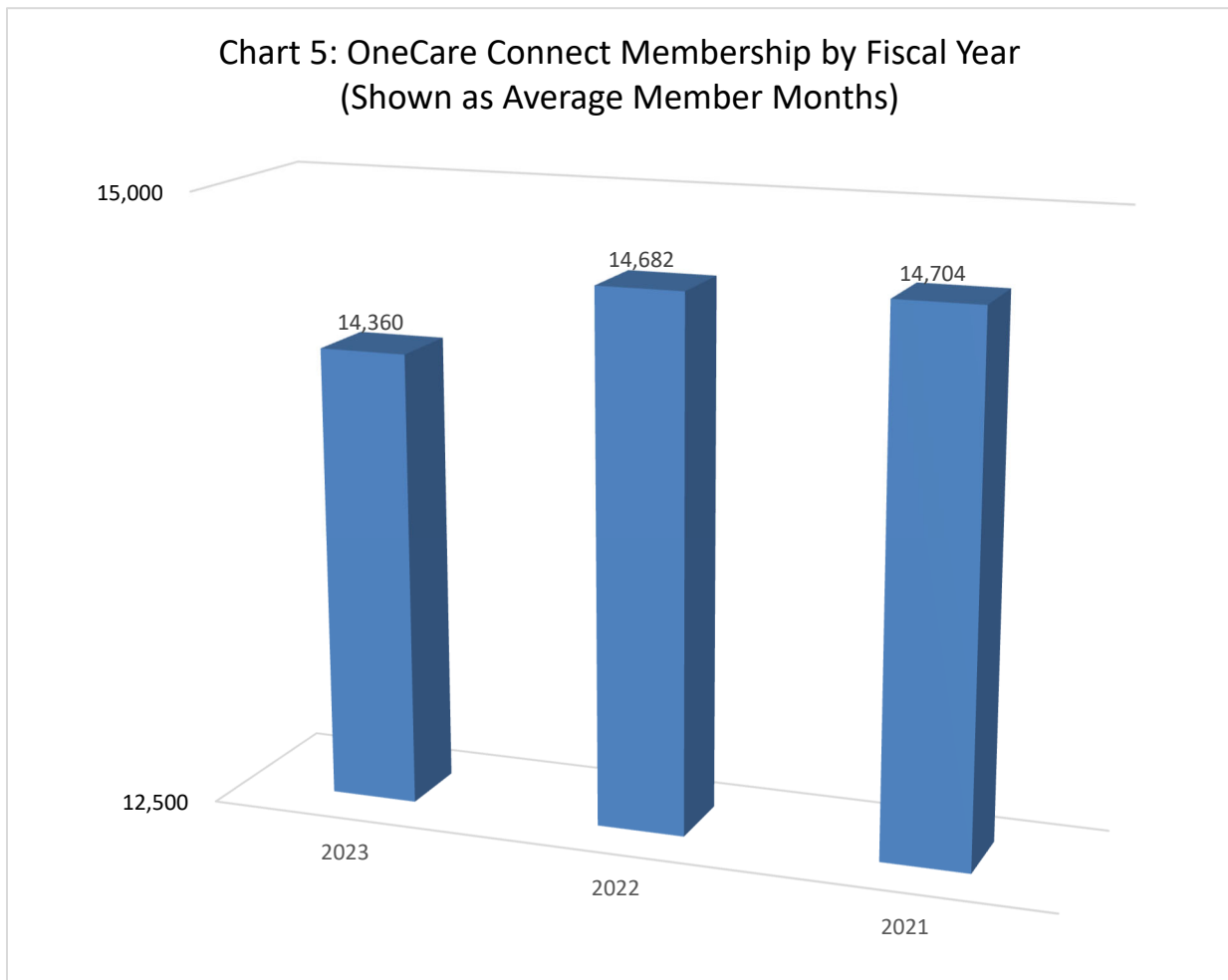
CalOptima Health's Whole Child Model (WCM) program includes children who are California Children's Services (CCS) eligible. These members are receiving their CCS services and non-CCS services under the WCM program.

OneCare was introduced in October 2005 as a Medicare Advantage Special Needs Plan. It provides a full range of health care services to members who are eligible for both the Medicare and Medi-Cal programs (i.e., dual eligible). The average member months of 17,443, 2,342, and 1,669 for the years ended June 30, 2023, 2022, and 2021, respectively. The average member month for fiscal year 2023 was calculated using enrollment from January 2023 through June 2023 due to the transition of OneCare Connect members to OneCare beginning January 1, 2023. The chart below displays the average member months for the past three years.



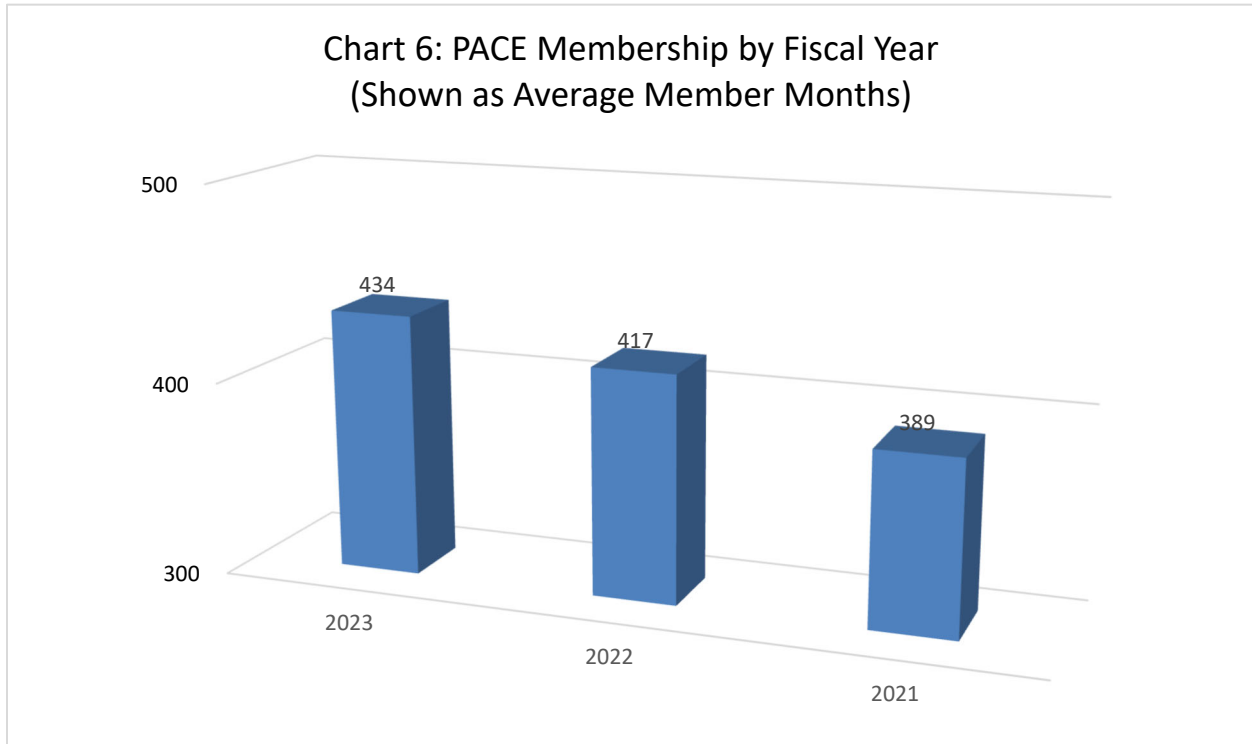
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CalOptima Health launched the OneCare Connect program to serve dual eligible members in Orange County in July 2015. This program combines members' Medicare and Medi-Cal coverage and adds other benefits and supports. The average member months were 14,360, 14,682, and 14,704 for the fiscal years ended June 30, 2023, 2022, and 2021, respectively. For fiscal year 2023, the average member month was calculated with enrollment from July 2022 through December 2023 due to the transition of OneCare Connect members to OneCare on January 1, 2023. The chart below displays the average member months for the past three years.



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PACE began operations in October 2013. It is a community-based Medicare and Medi-Cal program that provides coordinated and integrated health care services to frail elders to help them to continue living independently in the community. The average member months were 434, 417, and 389 for the fiscal years ended June 30, 2023, 2022, and 2021, respectively. The chart below displays the average member months for the past three years.



Economic Factors and the State’s Fiscal Year 2023-24 Budget

On June 27, 2023, Governor Gavin Newsom signed the fiscal year 2023-24 state budget. The budget promotes fiscal discipline and avoids ongoing commitments to address an expected downturn in state revenue resulting from high inflation, rising interest rates and unemployment. To address an approximately \$31.7 billion shortfall, the budget proposes funding shifts, reductions or pullbacks of previously approved spending, delayed spending, new revenue proposals and internal borrowing, and trigger reductions.

General Fund spending in the budget package was \$225.9 billion, a decrease of \$8.7 billion or 3.7 percent from fiscal year 2022-23. The budget included \$37.5 billion in Total Fund spending for the Medi-Cal program. It projected an average monthly caseload of 14.2 million beneficiaries in fiscal year 2023-24, an decrease of 7.2 percent from fiscal year 2022-23. Major Medi-Cal program changes adopted in the budget include:

- Maintain investment for the California Advancing and Innovating Medi-Cal (CalAIM) Initiative;
- Renew the Managed Care Organization tax effective April 1, 2023, through December 31, 2026;

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health Management's Discussion and Analysis

- Use MCO tax revenue to increase Medi-Cal provider rates for primary care, maternity care and non-specialty mental health services, effective January 1, 2024; and
- Expand eligibility to all income eligible adults ages 26-49 regardless of immigration status, effective no sooner than January 1, 2024.

The budget included \$208.7 billion in General Fund revenues and transfers in fiscal year 2023-24, a decrease of \$3.6 billion or 1.7 percent compared to last fiscal year. The three largest General Fund taxes (i.e., personal income tax, sales and use tax, corporation tax) were forecasted to decrease by 2.2 percent. The State is projected to end FY 2023-24 with \$37.8 billion in total reserves.

DHCS Annual Audit – In December 2022, the California Department of Health Care Services (DHCS) formally engaged CalOptima Health for its annual medical program audit. The audit covered the provision of Medi-Cal services for the period of February 1, 2022 through January 31, 2023, and assessed CalOptima Health's compliance with its Medi-Cal contract and regulations. As of this writing, CalOptima Health is waiting for the findings report and form request for corrective action.

DHCS Focused Audit – At the time of engagement for its annual audit scope, DHCS simultaneously engaged CalOptima Health in a focused audit for services related to transportation and behavioral health. DHCS plans to conduct this focused audit on all managed care plans; the review was not unique to CalOptima Health. Once DHCS concludes its review of all managed care plans, a comprehensive, de-identified report is anticipated to be released by second quarter 2024.

Audit by the California State Auditor – In May 2023, the California State Auditor released Report 2022-112. The audit covered certain aspects of CalOptima Health's budget, services, programs and organizational changes. As of this writing, CalOptima Health has completed its submission of the sixty (60) day update and is on track to submit the six month update in October 2023.

DHCS PACE Program Audit – In February 2023, DHCS formally engaged CalOptima Health for a routine audit of the PACE program. The audit was conducted from April 10, 2023 to April 21, 2023, with an exit conference on April 21, 2023. The audit covered grievance documentation procedures, clinical appropriateness and care planning, transportation, personnel records, subcontractor agreements, serious incident reports, onsite review of the facility, emergency preparedness, meal preparation and kitchen procedures to assess CalOptima Health's compliance with PACE regulations. The DHCS audit findings report identified eight findings for Corrective Action Required (CAR). The corrective action plan (CAP) was finalized on June 23, 2023. On July 24, 2023, DHCS accepted CalOptima Health's CAP response.

**Orange County Health Authority, A Public Agency dba Orange
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CMS Program Audit – The Centers for Medicare & Medicaid Services (CMS) engaged CalOptima Health for a virtual, full-scope program audit of the OneCare and OneCare Connect programs in early June 2021. The audit began in mid-July 2021 and ended in early August 2021. CalOptima Health received the final report from CMS in November 2021. The report included one Immediate Corrective Action Required (ICAR), eight CARs, and eleven observations. In January 2022, CMS confirmed acceptance of CalOptima Health's corrective actions for non-ICAR conditions and requested CalOptima Health to undergo an independent validation audit (IVA) by July 2022 in order to demonstrate correction of all conditions cited in the final report. CalOptima Health completed the IVA and submitted the findings report to CMS in September 2022. In January 2023, CMS requested CalOptima Health perform a revalidation audit for two findings, which were completed in May 2023 (Formulary Administration) and July 2023 (SNP-MOC). The final revalidation report was submitted to CMS on July 28, 2023. As of this writing, CalOptima Health is waiting for CMS's response to the revalidation report.

Requests for Information – This financial report has been prepared in the spirit of full disclosure to provide the reader with an overview of CalOptima Health's operations. If the reader has questions or would like additional information, please direct the requests to CalOptima Health, 505 City Parkway West, Orange, California 92868 or call (714) 347-3237.

Report of Independent Auditors

The Board of Directors
Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated
Medical Assistance dba CalOptima Health

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health (the “Organization”), which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Organization adopted the accounting requirements of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements (SBITAs)* as of July 1, 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of plan contributions, and schedule of changes in total OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Irvine, California
September 22, 2023

Financial Statements

**Orange County Health Authority, A Public Agency dba Orange
Prevention and Treatment Integrated Medical Assistance dba
CalOptima Health
Statements of Net Position
June 30, 2023 and 2022**

	2023	2022 (As Restated)
CURRENT ASSETS		
Cash and cash equivalents	\$ 771,575,961	\$ 823,489,345
Investments	1,676,736,065	1,014,460,504
Premiums due from the State of California and CMS	380,839,598	405,192,387
Prepaid expenses and other	108,144,802	94,264,454
Total current assets	2,937,296,426	2,337,406,690
BOARD-DESIGNATED ASSETS AND RESTRICTED CASH		
Cash and cash equivalents	1,940,209	44,968,923
Investments	574,611,484	566,159,456
Restricted deposit	300,000	300,051
	576,851,693	611,428,430
CAPITAL ASSETS, NET	66,189,127	66,864,042
INTANGIBLE RIGHT-TO-USE SUBSCRIPTION ASSET, net	18,018,382	260,759
Total assets	3,598,355,628	3,015,959,921
DEFERRED OUTFLOWS OF RESOURCES		
Net pension	24,373,350	6,610,593
Other postemployment benefit	1,596,000	3,015,000
Total deferred outflows of resources	25,969,350	9,625,593
Total assets and deferred outflows of resources	\$ 3,624,324,978	\$ 3,025,585,514

See accompanying notes.

**Orange County Health Authority, A Public Agency dba Orange
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Statements of Net Position (Continued)
June 30, 2023 and 2022**

	2023	2022 (As Restated)
CURRENT LIABILITIES		
Medical claims liability and capitation payable		
Medical claims liability	\$ 333,993,756	\$ 301,852,721
Provider capitation and withholds	125,444,022	193,214,628
Accrued reinsurance costs to providers	4,312,093	3,371,697
Subscription liability	4,556,961	79,013
Due to the State of California and CMS	1,303,463,182	1,014,382,064
Unearned revenue	61,886,332	8,049,101
	1,833,656,346	1,520,949,224
Accounts payable and other	14,540,984	10,872,861
Accrued payroll and employee benefits and other	23,332,392	19,567,540
Total current liabilities	1,871,529,722	1,551,389,625
POSTEMPLOYMENT HEALTH CARE PLAN	18,975,000	22,178,000
SUBSCRIPTION LIABILITY, net of current portion	12,173,318	140,665
NET PENSION LIABILITY	40,465,145	577,854
Total liabilities	1,943,143,185	1,574,286,144
DEFERRED INFLOWS OF RESOURCES		
Net pension	3,387,516	23,578,504
Other postemployment benefit	7,788,000	8,211,000
Total deferred inflows of resources	11,175,516	31,789,504
NET POSITION		
Net investment in capital assets	66,133,819	66,771,871
Restricted by legislative authority	107,969,096	107,345,553
Unrestricted	1,495,903,362	1,245,392,442
Total net position	1,670,006,277	1,419,509,866
Total liabilities, deferred inflows of resources, and net position	\$ 3,624,324,978	\$ 3,025,585,514

See accompanying notes.

**Orange County Health Authority, A Public Agency dba Orange
Prevention and Treatment Integrated Medical Assistance dba
CalOptima Health**

**Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022**

	2023	2022 (As Restated)
REVENUES		
Premium revenues	\$ 4,239,833,266	\$ 4,227,258,732
Total operating revenues	4,239,833,266	4,227,258,732
OPERATING EXPENSES		
Medical expenses		
Claims expense to providers and facilities	1,815,097,808	1,583,772,833
Provider capitation	1,275,685,079	1,284,029,592
Other medical	367,744,574	693,806,896
OneCare Connect	160,125,649	314,389,750
PACE	39,133,937	34,575,969
OneCare	204,408,932	35,273,613
Total medical expenses	3,862,195,979	3,945,848,653
Administrative expenses		
Salaries, wages, and employee benefits	129,037,210	95,941,713
Supplies, occupancy, insurance, and other	31,742,817	30,653,379
Purchased services	15,551,299	14,606,554
Depreciation and amortization	8,114,542	4,485,581
Professional fees	7,892,802	4,755,869
Total administrative expenses	192,338,670	150,443,096
Total operating expenses	4,054,534,649	4,096,291,749
OPERATING INCOME	185,298,617	130,966,983
NON-OPERATING REVENUES (LOSS)		
Net investment income (loss) and other	89,740,819	(20,319,587)
Grant expense	(25,530,071)	-
Rental income, net of related expenses	987,046	81,668
Total non-operating revenues (loss)	65,197,794	(20,237,919)
Increase in net position	250,496,411	110,729,064
NET POSITION, beginning of year	1,419,509,866	1,308,780,802
NET POSITION, end of year	\$ 1,670,006,277	\$ 1,419,509,866

See accompanying notes.

**Orange County Health Authority, A Public Agency dba Orange
Prevention and Treatment Integrated Medical Assistance dba
CalOptima Health
Statements of Cash Flows
Years Ended June 30, 2023 and 2022**

	2023	2022 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Capitation payments received and other	\$ 4,607,104,404	\$ 4,568,529,851
Payments to vendors	(86,714,638)	(80,679,482)
Payments to employees	(125,545,812)	(99,272,178)
Net cash provided by operating activities	<u>497,958,800</u>	<u>504,300,618</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on subscription lease obligations	(5,414,341)	(74,871)
Purchases of capital assets	(6,499,838)	(27,839,179)
Net cash used in capital and related financing activities	<u>(11,914,179)</u>	<u>(27,914,050)</u>
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Investment income received	125,584,618	9,471,378
Purchases of securities	(46,933,516,529)	(25,441,955,393)
Sales of securities	46,269,973,906	25,497,752,294
Net cash (used in) provided by investing activities	<u>(537,958,005)</u>	<u>65,268,279</u>
Net change in cash and cash equivalents	(51,913,384)	541,654,847
CASH AND CASH EQUIVALENTS, beginning of year	<u>823,489,345</u>	<u>281,834,498</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 771,575,961</u>	<u>\$ 823,489,345</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 160,755,592	\$ 130,966,983
ADJUSTMENT TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	10,719,510	6,725,892
Changes in assets and liabilities		
Premiums due from the State of California and CMS	24,352,789	22,145,381
Prepaid expenses and other	(13,880,348)	(34,727,594)
Medical claims liability	32,141,035	12,932,931
Provider capitation and withholds	(67,770,606)	48,434,840
Accrued reinsurance costs to providers	940,396	203,309
Due to the State of California and CMS	289,081,118	324,250,541
Unearned revenue	53,837,231	(5,124,803)
Accounts payable and other	4,290,685	1,823,602
Accrued payroll and employee benefits and other	3,764,852	3,350,621
Postemployment health care plan	(2,207,000)	(1,095,000)
Net pension liability	1,933,546	(5,586,086)
Net cash provided by operating activities	<u>\$ 497,958,800</u>	<u>\$ 504,300,618</u>
SUPPLEMENTAL SCHEDULE OF NON-CASH OPERATING AND INVESTING ACTIVITIES		
Change in unrealized depreciation on investments	<u>\$ (20,441,581)</u>	<u>\$ (25,359,620)</u>

See accompanying notes.

**Orange County Health Authority, A Public Agency dba Orange
Prevention and Treatment Integrated Medical Assistance dba
CalOptima Health
Notes to Financial Statements**

Note 1 – Organization

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health, is a County-Organized Health System (COHS) serving primarily Medi-Cal beneficiaries in Orange County, California. Effective August 4, 2022, Orange County Health Authority changed its dba name to CalOptima Health (“CalOptima Health” or the “Organization”). Pursuant to the California Welfare and Institutions Code, CalOptima Health was formed by the Orange County Board of Supervisors as a public/private partnership through the adoption of Ordinance No. 3896 in August 1992. The agency began operations in October 1995.

As a COHS, CalOptima Health maintains an exclusive contract with the State of California (the “State”), Department of Health Care Services (DHCS) to arrange for the provision of health care services to Orange County’s Medi-Cal beneficiaries. Orange County had approximately 970,600 and 897,100 Medi-Cal beneficiaries for the years ended June 30, 2023 and 2022, respectively. CalOptima Health also offers OneCare, a Medicare Advantage Special Needs Plan, via a contract with the Centers for Medicare & Medicaid Services (CMS). OneCare served approximately 17,700 and 2,700 members eligible for both Medicare and Medi-Cal for the years ended June 30, 2023 and 2022, respectively.

In July 2015, CalOptima Health began offering the OneCare Connect Cal Medi Connect Plan, a Medicare-Medicaid Plan, via a contract with CMS and DHCS. OneCare Connect served an average of 14,360 members during the period July 1, 2022 through December 31, 2022 and approximately 14,400 during the year-ended June 30, 2022. The OneCare Connect Program ended on December 31, 2022. Starting January 1, 2023, CalOptima Health transitioned all subscribers from OneCare Connect to the OneCare Plan. Enrollment in the OneCare Connect Program at December 31, 2022 was 14,385.

CalOptima Health also contracts with the California Department of Aging to provide case management of social and health care services to approximately 500 Medi-Cal eligible seniors- under the State’s Multipurpose Senior Services Program (MSSP). Effective January 1, 2022, MSSP transitioned from a managed care plan benefit to a carved-out waiver benefit.

The Program of All-Inclusive Care for the Elderly (PACE) provides services to 55 years of age or older members who reside in the PACE service area and meet California nursing facility level of care requirements. The program receives Medicare and Medi-Cal funding and served approximately 440 members.

CalOptima Health, in turn, subcontracts the delivery of health care services through health maintenance organizations and provider-sponsored organizations, known as Physician/Hospital Consortia, and Shared Risk Groups. Additionally, CalOptima Health has direct contracts with hospitals and providers for its fee-for-service network.

CalOptima Health is Knox-Keene licensed for purposes of its Medicare programs and is subject to certain provisions of the Knox-Keene Health Care Service Plan Act of 1975 (the “Act”) to the extent incorporated by reference into CalOptima Health’s contract with DHCS. As such, CalOptima Health is subject to the regulatory requirements of the Department of Managed Health Care (DMHC) under Section 1300, Title 28 of the California Administrative Code of Regulations, including minimum requirements of Tangible Net Equity (TNE), which CalOptima Health exceeded as of June 30, 2023 and 2022.

**Orange County Health Authority, A Public Agency dba Orange
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Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – CalOptima Health is a COHS plan governed by a 10-member Board of Directors appointed by the Orange County Board of Supervisors. Effective for the fiscal year ended June 30, 2014, CalOptima Health began reporting as a discrete component unit of the County of Orange, California. The County made this determination based on the County Board of Supervisors' role in appointing all members of the Board of Directors.

Basis of accounting – CalOptima Health uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The accompanying financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board (GASB).

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents – The Organization considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Investments – Investments are stated at fair value in accordance with GASB Codification Section 150. The fair value of investments is estimated based on quoted market prices, when available. For debt securities not actively traded, fair values are estimated using values obtained from external pricing services or are estimated by discounting the expected future cash flows using current market rates applicable to the coupon rate, credit, and maturity of the investments.

All investments with an original maturity of one year or less when purchased are recorded as current investments, unless designated or restricted.

Board-designated assets and restricted cash – Board-designated assets include amounts designated by the Board of Directors for the establishment of certain reserve funds for contingencies at a desired level between 1.4 and 2 months of premium revenues and amounts designated by the Board of Directors for CalOptima Health's homeless health initiative (see Note 3). Restricted cash represents a \$300,000 restricted deposit required by CalOptima Health as part of the Act (see Note 9).

Capital assets – Capital assets are stated at cost at the date of acquisition. The costs of normal maintenance, repairs, and minor replacements are charged to expense when incurred.

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Notes to Financial Statements**

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Long-lived assets are periodically reviewed for impairment. The following estimated useful lives are used:

	Years
Furniture	5 years
Vehicles	5 years
Computers and software	3 years
Leasehold improvements	15 years or life of lease, whichever is less
Building	40 years
Building components	10 to 30 years
Land improvements	8 to 25 years
Tenant improvements	7 years or life of lease, whichever is less

Fair value of financial instruments – The financial statements include financial instruments for which the fair market value may differ from amounts reflected on a historical basis. Financial instruments of the Organization consist of cash deposits, investments, premium receivable, accounts payable, and certain accrued liabilities. The Organization’s other financial instruments, except for investments, generally approximate fair market value based on the relatively short period of time between origination of the instruments and their expected realization.

Medical claims liability and expenses – CalOptima Health establishes a claims liability based on estimates of the ultimate cost of claims in process and a provision for incurred but not yet reported (IBNR) claims, which is actuarially determined based on historical claim payment experience and other statistics. Such estimates are continually monitored and analyzed with any adjustments made as necessary in the period the adjustment is determined. CalOptima Health retains an outside actuary to perform an annual review of the actuarial projections. Amounts for claims payment incurred related to prior years vary from previously estimated liabilities as the claims ultimately are settled.

**Orange County Health Authority, A Public Agency dba Orange
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Provider capitation and withholds – CalOptima Health has provider services agreements with several health networks in Orange County, whereby the health networks provide care directly to covered members or through subcontracts with other health care providers. Payment for the services provided by the health networks is on a fully capitated basis. The capitation amount is based on contractually agreed-upon terms with each health network. CalOptima Health withholds amounts from providers at an agreed-upon percentage of capitation payments made to ensure the financial solvency of each contract. CalOptima Health also records a liability related to quality incentive payments and risk-share provisions. The quality incentive liability is estimated based on member months and rates agreed upon by the Board of Directors. For the risk-share provision liability, management allocates surpluses or deficits, multiplied by a contractual rate, with the shared-risk groups. Estimated amounts due to health networks pertaining to risk-share provisions were approximately \$32,197,000 and \$12,882,000 as of June 30, 2023 and 2022, respectively, and are included in provider capitation and withholds on the statements of net position. During the years ended June 30, 2023 and 2022, CalOptima Health incurred approximately \$1,312,969,000 and \$1,375,223,000 respectively, of capitation expense relating to health care services provided by health networks. Capitation expense is included in the provider capitation, OneCare Connect, and OneCare line items in the statements of revenues, expenses, and changes in net position. Estimated amounts due to health networks as of June 30, 2023 and 2022, related to the capitation withhold arrangements, quality incentive payments, and risk-share provisions were approximately \$125,444,000 and \$193,215,000, respectively.

Premium deficiency reserves – CalOptima Health performs periodic analyses of its expected future health care costs and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency reserve is accrued. Investment income is not included in the calculation to estimate premium deficiency reserves. CalOptima Health's management determined that no premium deficiency reserves were necessary as of June 30, 2023 and 2022.

Accrued compensated absences – CalOptima Health's policy permits employees who are regularly scheduled to work more than 20 hours per week to accrue 18 days of paid time off (PTO) (23 days for exempt employees) based on their years of continuous service, with an additional week of accrual after three years of service and another after 10 years of service. In the event that available PTO is not used by the end of the benefit year, employees may carry unused time off into subsequent years, up to the maximum accrual amount equal to two (2) times the employee's annual accrual. If an employee reaches his or her maximum PTO accrual amount, the employee will stop accruing PTO. Accumulated PTO will be paid to the employees upon separation from service with CalOptima Health. All compensated absences are accrued and recorded in accordance with GASB Codification Section C60 and are included in accrued payroll and employee benefits.

Net position – Net position is reported in three categories, defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable (if any) to the acquisition, construction, or improvement of those assets.

**Orange County Health Authority, A Public Agency dba Orange
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- *Restricted by legislative authority* – This component of net position consists of external constraints placed on net asset use by creditors (such as through debt covenants), grantors, contributors, or the law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation (see Note 9).
- *Unrestricted* – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Operating revenues and expenses – CalOptima Health’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with arranging for the provision of health care services. Operating expenses are all expenses incurred to arrange for the provision of health care services, as well as the costs of administration. Unpaid claims adjustment expenses are an estimate of the cost to process the IBNR claims and are included in operating expenses. Non-exchange revenues and expenses are reported as nonoperating revenues and expenses.

Revenue recognition and due to or from the State and CMS – Premium revenue is recognized in the period the members are eligible to receive health care services. Premium revenue is generally received from the State each month following the month of coverage based on estimated enrollment and capitation rates as provided for in the State contract. As such, premium revenue includes an estimate for amounts receivable from or refundable to the State for these retrospective adjustments. These estimates are continually monitored and analyzed, with any adjustments recognized in the period when determined. OneCare premium revenue is generally received from CMS each month for the month of coverage. Premiums received in advance are recorded in unearned revenue on the statements of net position. Included in premium revenue are retroactive adjustments favorable to CalOptima Health in the amount of approximately \$376,821,000 and \$313,981,000 related to retroactive capitation rate adjustments based on receipt of new information from DHCS during the years ended June 30, 2023 and 2022, respectively.

These estimates are continually reviewed, and adjustments to the estimates are reflected currently in the statements of revenues, expenses, and changes in net position. Eligibility of beneficiaries is determined by DHCS and validated by the State. The State provides CalOptima Health the validated monthly eligibility file of program beneficiaries who are continuing, newly added, or terminated from the program in support of premium revenue for the respective month.

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Effective with the enrollment of the Medi-Cal Expansion population per the Affordable Care Act (ACA), CalOptima Health was subject to DHCS requirements to meet the minimum 85 percent medical loss ratio (MLR) for this population. Specifically, CalOptima Health was required to expend at least 85 percent of the Medi-Cal premium revenue received for this population on allowable medical expenses as defined by DHCS. In the event CalOptima Health expended less than the 85 percent requirement, CalOptima Health was required to return to DHCS the difference between the minimum threshold and the actual allowed medical expenses. In March 2023, CalOptima Health was notified that CalOptima Health was not required to remit any payments to DHCS, nor will DHCS make any additional payment for fiscal year 2018. On April 5, 2023, CalOptima Health received written confirmation from DHCS that the expansion MLRs for the period of January 1, 2014, through June 30, 2016, are considered closed and final. As a result, CalOptima Health released the expansion MLR liability of approximately \$135,390,000 during the current year ended June 30, 2023. The amount is recorded within premium revenues on the accompanying statements of revenues, expenses, and changes in net position.

Premium revenue and related net receivables as a percent of the totals were as follows as of June 30:

	2023		2022	
	Revenue	%	Revenue	%
Revenue				
Medi-Cal	\$ 3,809,323,101	89.8%	\$ 3,802,802,931	90.0%
OneCare	214,353,873	5.1%	38,061,315	0.9%
OneCare Connect	172,148,803	4.1%	344,402,500	8.1%
PACE	44,007,489	1.0%	41,991,986	1.0%
	<u>\$ 4,239,833,266</u>	<u>100.0%</u>	<u>\$ 4,227,258,732</u>	<u>100.0%</u>
	2023	%	2022	%
Receivables	Receivables	%	Receivables	%
Medi-Cal	\$ 355,725,299	93.4%	\$ 379,774,086	93.7%
OneCare	-	0.1%	3,035,680	0.7%
OneCare Connect	22,601,354	5.9%	19,606,213	4.8%
PACE	2,512,945	0.7%	2,776,408	0.7%
	<u>\$ 380,839,598</u>	<u>100.0%</u>	<u>\$ 405,192,387</u>	<u>100.0%</u>

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Intergovernmental transfer – CalOptima Health entered into an agreement with DHCS and Governmental Funding Entities to receive an intergovernmental transfer (IGT) through a capitation rate increase of approximately \$121,159,000 and \$71,747,000 during the years ended June 30, 2023 and 2022, respectively. Under the agreement, approximately \$119,622,000 and \$49,076,000 of the funds that were received from the IGT were passed through to Governmental Funding Entities and other contracted providers and organizations during the years ended June 30, 2023 and 2022, respectively. Under GASB, the amounts that will be passed through to Governmental Funding Entities are not reported in the statements of revenues, expenses, and changes in net position or the statements of net position. CalOptima Health accounts for the IGT for CalOptima Health purposes as an exchange transaction requiring funds to be expended prior to revenue recognition. CalOptima Health retains a portion of the IGT, which must be used to enhance provider reimbursement rates and strengthen the delivery system. Starting with rate year 2017-2018, funds expended must be tied to covered medical services provided to CalOptima Health’s Medi-Cal beneficiaries. A retainer in the amount of approximately \$5,698,000 and \$7,744,000 as of June 30, 2023 and 2022, respectively, is included in unearned revenues in the statements of net position.

Directed Payments – DHCS implemented a new hospital Directed Payment program with CalOptima Health. The program implements enhanced reimbursement to eligible and participating network hospitals for contracted services. This hospital Directed Payment program is broken into three types: 1) Private Hospital Directed Payment Program (PHDP), 2) Public Hospital Enhanced Payment Program (EPP), and 3) Public Hospital Quality Incentive Program (QIP). Under the Directed Payment program, approximately \$293,811,000 and \$271,516,000 of the funds that were received from DHCS were passed through to hospitals as requested by DHCS during the years ended June 30, 2023 and 2022, respectively. The receipts from DHCS are included in premium revenues, and the payments made to the hospitals are included in other medical expenses in the statements of net position.

Medicare Part D – CalOptima Health covers prescription drug benefits in accordance with Medicare Part D under multiple contracts with CMS. The payments CalOptima Health receives monthly from program premiums, which are determined from its annual bid, represent amounts for providing prescription drug insurance coverage. CalOptima Health recognizes premiums for providing this insurance coverage ratably over the term of its annual contract. CalOptima Health’s CMS payment is subject to risk sharing through the Medicare Part D risk corridor provisions. In addition, receipts for reinsurance and low-income cost subsidies, as well as receipts for certain discounts on brand name prescription drugs in the coverage gap, represent payments for prescription drug costs for which CalOptima Health is not at risk.

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The risk corridor provisions compare costs targeted in CalOptima Health's bids to actual prescription drug costs, limited to actual costs that would have been incurred under the standard coverage as defined by CMS. Variances exceeding certain thresholds may result in CMS making additional payments to CalOptima Health or require CalOptima Health to refund to CMS a portion of the premiums CalOptima Health received. CalOptima Health estimates and recognizes an adjustment to premiums revenue related to these risk corridor provisions based upon pharmacy claims experience to date, as if the annual contract were to terminate at the end of the reporting period. Accordingly, this estimate provides no consideration to future pharmacy claims experience. CalOptima Health records a receivable or payable at the contract level and classifies the amount as current or long-term in the accompanying statements of net position based on the timing of expected settlement. As of June 30, 2023 and 2022, the Part D payable balance was approximately \$1,882,000 and \$360,000, respectively, and is included in the due to the State of California and CMS line item on the accompanying statements of net position. As of June 30, 2023 and 2022, the Part D receivable balance was approximately \$51,860,000 and \$41,888,000, respectively, and is included in the prepaid expenses and other line item on the accompanying statements of net position.

Income taxes – CalOptima Health operates under the purview of the Internal Revenue Code (IRC), Section 501(a), and corresponding California Revenue and Taxation Code provisions. As such, CalOptima Health is not subject to federal or state taxes on related income. Accordingly, no provision for income tax has been recorded in the accompanying financial statements.

Premium taxes – Effective July 1, 2016, Senate Bill X2-2 (SB X2-2) *Managed Care Organization Tax* authorized DHCS to implement a Managed Care Organization (MCO) provider tax subject to approval by CMS. This approved tax structure is based on enrollment (total member months) between specified tiers that are assessed different tax rates. During fiscal year 2020, the MCO tax was extended with an effective date of January 1, 2020. Using the approved structure, each MCO's total tax liability for years ended June 30, 2023 and 2022, were calculated. CalOptima Health recognized premium tax expense of approximately \$92,241,000 and \$166,145,000 as a reduction of premium revenues in the statements of revenue, expenses, and changes in net position for the years ended June 30, 2023 and 2022, respectively. As the MCO tax expired on December 31, 2022, CalOptima Health did not record a MCO tax liability as of June 30, 2023. As of June 30, 2022, CalOptima Health's MCO tax liability was approximately \$41,563,000, and is included in due to the State of California and CMS line item on the accompanying statements of net position.

Risk corridors – During the year ended June 30, 2021, CalOptima Health's contract with DHCS was subject to a risk corridor for the Managed Long-Term Services and Supports program for the period of July 1, 2015 through June 30, 2017. Additionally, the State's fiscal year 2020-21 enacted budget included a COVID-19 (previously called Gross Medical Expense) risk corridor for the initial period of July 1, 2019 to December 31, 2021, and was extended to June 30, 2023. The State's fiscal year 2021-22 enacted budget included the Enhanced Care Management (ECM) risk corridor for the period of January 1, 2022 through June 30, 2022, and was extended to June 30, 2023.

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CalOptima Health also participates in the Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) risk corridor for the period of July 1, 2019 through June 30, 2023. All risk corridors are subject to certain thresholds of medical expenses compared to premium revenues. Variances exceeding the thresholds may require CalOptima Health to refund premium revenues back to DHCS. CalOptima Health estimates and recognizes an adjustment to premium revenues based on actual membership and capitation rates in effect. As of June 30, 2023 and 2022, CalOptima Health recognized a liability of approximately \$962,366,000 and \$456,700,000, respectively, related to the risk corridors, which is included in the due to the State of California and CMS line item on the statements of net position. During the years ended June 30, 2023 and 2022, the reduction of premium revenue was approximately \$575,761,000 and \$228,892,000, respectively, related to the risk corridors, which is included in premium revenues on the statements of revenues, expenses, and changes in net position.

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of CalOptima Health’s Miscellaneous Plan of the Orange County Health Authority (the “CalPERS Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by California Public Employees Retirement Systems (CalPERS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Recent accounting pronouncements – In June 2022, the GASB issued Statement No. 101, Compensated Absences (GASB 101). GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This statement is effective for the Organization for the year ended June 30, 2024, and management is evaluating the impact of this statement on the financial statements.

Change in accounting principle and restatement – Effective July 1, 2021, CalOptima Health implemented GASB Statement No. 96, *Subscription-based Information Technology Arrangements (SBITAs)*. This Statement provides guidance on the accounting and financial reporting for SBITAs and (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

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Under GASB 96, CalOptima Health determines whether the arrangement is or contains a subscription lease at inception and reassesses its determination if terms and conditions of the arrangement are changed. Intangible right-to-use subscription asset represents CalOptima Health's right to use an underlying asset for the subscription term and SBITA subscription liabilities represent CalOptima Health's obligation to make payments arising from the SBITA. SBITA subscription liabilities and their corresponding intangible right-to-use subscription asset are recorded based on the present value of subscription payments over the expected remaining subscription term. For this purpose, CalOptima Health considers only payments that are fixed and determinable at the time of commencement. The interest rate implicit in subscription contracts is typically not readily determinable. As a result, CalOptima Health has utilized the prime rate as of the adoption date for a similar term, as permitted by GASB 96. Subscription terms may include options to extend or terminate the subscription when it is reasonably certain that CalOptima Health will exercise that option.

These restatements were incorporated in CalOptima Health's financial statements and had an effect on the beginning net position of CalOptima Health. CalOptima Health recognized a SBITA subscription liability of \$347,679 at July 1, 2021, due to the implementation of GASB 96; however, this amount was substantially offset by an intangible right-to-use subscription asset.

The implementation of GASB 96 had the following effect on net position as reported June 30, 2022:

Net position at June 30, 2022, as previously reported	\$ 1,419,468,785
GASB 96 SBITA	<u>41,081</u>
Net position at June 30, 2022, as restated	<u><u>\$ 1,419,509,866</u></u>

Reclassifications – Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

Note 3 – Cash, Cash Equivalents, and Investments

Cash and investments are reported in the statements of net position as follows as of June 30:

	2023	2022
Current assets		
Cash and cash equivalents	\$ 771,575,961	\$ 823,489,345
Investments	1,676,736,065	1,014,460,504
Board-designated assets and restricted cash		
Cash and cash equivalents	1,940,209	44,968,923
Investments	574,611,484	566,159,456
Restricted deposit	<u>300,000</u>	<u>300,051</u>
	<u><u>\$ 3,025,163,719</u></u>	<u><u>\$ 2,449,378,279</u></u>

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Board-designated assets and restricted cash are available for the following purposes as of June 30:

	2023	2022
Board-designated assets and restricted cash		
Contingency reserve fund	\$ 576,551,693	\$ 570,491,640
Homeless Health Initiative fund	-	40,636,739
Restricted deposit with DMHC	300,000	300,051
	\$ 576,851,693	\$ 611,428,430

Custodial credit risk deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Organization may not be able to recover its deposits or collateral securities that are in the possession of an outside party. The California Government Code requires that a financial institution secure deposits made by public agencies by pledging securities in an undivided collateral pool held by a depository regulated under the state law. As of June 30, 2023 and 2022, no deposits were exposed to custodial credit risk, as the Organization has pledged collateral to cover the amounts.

Investments – CalOptima Health invests in obligations of the U.S. Treasury, other U.S. government agencies and instrumentalities, state obligations, corporate securities, money market funds, and mortgage or asset-backed securities.

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Interest rate risk – In accordance with its annual investment policy (investment policy), CalOptima Health manages its exposure to decline in fair value from increasing interest rates by matching maturity dates to the extent possible with CalOptima Health's expected cash flow draws. Its investment policy limits maturities to five years, while also staggering maturities. CalOptima Health maintains a low-duration strategy, targeting a portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile because they are less sensitive to interest rate changes. As of June 30, 2023 and 2022, CalOptima Health's investments, including cash equivalents, had the following modified duration:

Investment Type	June 30, 2023			
	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1–5	More Than 5
U.S. Treasury notes	\$ 652,372,690	\$ 334,436,427	\$ 317,936,263	\$ -
U.S. Agency notes	294,565,404	-	294,565,404	-
Corporate bonds	606,478,662	151,600,486	454,878,176	-
Asset-backed securities	167,709,021	41,290,805	126,418,216	-
Mortgage-backed securities	352,525,833	24,026,927	328,498,906	-
Municipal bonds	69,679,079	26,904,673	42,774,406	-
Supranational	9,707,125	-	9,707,125	-
Commercial paper	34,824,599	34,824,599	-	-
Certificates of deposit	48,082,917	48,082,917	-	-
Cash equivalents	666,834,439	666,834,439	-	-
Cash	7,274,284	7,274,284	-	-
	<u>2,910,054,053</u>	<u>\$ 1,335,275,557</u>	<u>\$ 1,574,778,496</u>	<u>\$ -</u>
Accrued interest receivable	<u>15,402,218</u>			
	<u>\$ 2,925,456,271</u>			

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Investment Type	June 30, 2022			
	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1–5	More Than 5
U.S. Treasury notes	\$ 327,894,991	\$ 36,710,632	\$ 291,184,359	\$ -
U.S. Agency notes	27,968,953	-	27,968,953	-
Corporate bonds	502,565,436	33,238,714	469,326,722	-
Asset-backed securities	280,622,076	-	280,622,076	-
Mortgage-backed securities	92,451,578	36,471,259	55,980,319	-
Municipal bonds	129,008,045	45,231,381	83,776,664	-
Tax exempt municipal bonds	1,208,815	-	1,208,815	-
Supranational	29,858,329	-	29,858,329	-
Commercial paper	35,969,792	5,976,862	29,992,930	-
Certificates of deposit	148,728,528	136,032,127	12,696,401	-
Cash equivalents	767,204,575	767,204,575	-	-
Cash	3,462,526	3,462,526	-	-
	<u>2,346,943,644</u>	<u>\$ 1,064,328,076</u>	<u>\$ 1,282,615,568</u>	<u>\$ -</u>
Accrued interest receivable	<u>4,343,416</u>			
	<u>\$ 2,351,287,060</u>			

Investment with fair values highly sensitive to interest rate fluctuations – When interest rates fall, debt is refinanced and paid off early. The reduced stream of future interest payments diminishes the fair value of the investment. The mortgage-backed and asset-backed securities in the CalOptima Health portfolios are of high credit quality, with relatively short average lives that represent limited prepayment and interest rate exposure risk. CalOptima Health’s investments include the following investments that are highly sensitive to interest rate and prepayment fluctuations to a greater degree than already indicated in the information provided above as of June 30:

	2023	2022
Asset-backed securities	\$ 167,709,021	\$ 280,622,076
Mortgage-backed securities	<u>352,525,833</u>	<u>92,451,578</u>
	<u>\$ 520,234,854</u>	<u>\$ 373,073,654</u>

Credit risk – CalOptima Health’s investment policy conforms to the California Government Code as well as to customary standards of prudent investment management. Credit risk is mitigated by investing in only permitted investments. The investment policy sets minimum acceptable credit ratings for investments from the three nationally recognized rating services: Standard and Poor’s Corporation (S&P), Moody’s Investor Service (Moody’s), and Fitch Ratings (Fitch). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody’s), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an “A.”

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As of June 30, 2023, following are the credit ratings of investments and cash equivalents:

Investment Type	Fair Value	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-End					
				AAA	Aa & Aa+	Aa-	A+	A	A-
U.S. Treasury notes	\$ 709,754,225	N/A	\$ 709,754,225	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Agency notes	472,401,379	N/A	472,401,379	-	-	-	-	-	-
Corporate bonds	610,956,872	A-	-	48,288,393	8,241,443	108,468,276	189,593,093	154,798,256	101,567,411
Asset-backed securities	167,997,222	AA-	-	165,939,194	2,058,028	-	-	-	-
Mortgage-backed securities	355,150,030	AAA	-	355,150,030	-	-	-	-	-
Municipal bonds	107,477,262	A-	-	66,287,078	26,428,815	10,727,556	1,007,344	1,568,179	1,458,290
Supranational	9,779,429	AAA	-	9,779,429	-	-	-	-	-
Certificates of deposit	48,838,522	A1/P1	-	48,838,522	-	-	-	-	-
Commercial paper	435,827,044	A1/P1	-	420,914,269	14,912,775	-	-	-	-
Money market mutual funds	7,274,286	AAA	-	7,274,286	-	-	-	-	-
Total	\$ 2,925,456,271		\$ 1,182,155,604	\$ 1,122,471,201	\$ 51,641,061	\$ 119,195,832	\$ 190,600,437	\$ 156,366,435	\$ 103,025,701

As of June 30, 2022, following are the credit ratings of investments and cash equivalents:

Investment Type	Fair Value	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-End					
				AAA	Aa & Aa+	Aa-	A+	A	A-
U.S. Treasury notes	\$ 613,661,310	N/A	\$ 613,661,310	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Agency notes	112,992,781	N/A	112,992,781	-	-	-	-	-	-
Corporate bonds	504,698,493	A-	-	13,168,534	18,224,140	82,365,369	97,504,233	179,834,076	113,602,141
Asset-backed securities	280,779,086	AAA	-	268,943,920	11,835,166	-	-	-	-
Mortgage-backed securities	92,633,657	AAA	-	92,633,657	-	-	-	-	-
Municipal bonds	141,722,001	A	-	46,435,063	60,559,471	29,755,026	2,174,741	2,797,700	-
Supranational	29,898,404	AAA	-	29,898,404	-	-	-	-	-
Repurchase agreement	175,007,174	N/A	175,007,174	-	-	-	-	-	-
Certificates of deposit	153,404,888	A1/P1	-	153,404,888	-	-	-	-	-
Commercial paper	243,026,740	A1/P1	-	211,532,422	31,494,318	-	-	-	-
Money market mutual funds	3,462,526	AAA	-	3,462,526	-	-	-	-	-
Total	\$ 2,351,287,060		\$ 901,661,265	\$ 819,479,414	\$ 122,113,095	\$ 112,120,395	\$ 99,678,974	\$ 182,631,776	\$ 113,602,141

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Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of CalOptima Health’s investment in a single issuer. CalOptima Health’s investment policy limits to no more than 5 percent of the total fair value of investments in the securities of any one issuer, except for obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises, and no more than 10 percent may be invested in one money market mutual. As of June 30, 2023 and 2022, all holdings complied with the foregoing limitations.

The Organization categorizes its fair value investments within the fair value hierarchy established by U.S. GAAP. The hierarchy for fair value measurements is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – Significant unobservable inputs.

The following is a description of the valuation methodologies used for instruments at fair value on a recurring basis and recognized in the accompanying statements of net position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Marketable securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These securities are classified within Level 2 of the valuation hierarchy. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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The following table presents the fair value measurements of assets recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

Investment Assets at Fair Value as of June 30, 2023				
	Level 1	Level 2	Level 3	Total
U.S. Treasury notes	\$ 652,372,690	\$ -	\$ -	\$ 652,372,690
U.S. Agency notes	-	294,565,404	-	294,565,404
Corporate bonds	-	606,478,662	-	606,478,662
Asset-backed securities	-	167,709,021	-	167,709,021
Mortgage-backed securities	-	352,525,833	-	352,525,833
Municipal bonds	-	69,679,079	-	69,679,079
Supranational	-	9,707,125	-	9,707,125
Commercial paper	-	34,824,599	-	34,824,599
Certificates of deposit	-	48,082,917	-	48,082,917
	\$ 652,372,690	\$ 1,583,572,640	\$ -	\$ 2,235,945,330

Investment Assets at Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
U.S. Treasury notes	\$ 327,894,991	\$ -	\$ -	\$ 327,894,991
U.S. Agency notes	-	27,968,953	-	27,968,953
Corporate bonds	-	502,565,436	-	502,565,436
Asset-backed securities	-	280,622,076	-	280,622,076
Mortgage-backed securities	-	92,451,578	-	92,451,578
Municipal bonds	-	129,008,045	-	129,008,045
Tax exempt Municipal bonds	-	1,208,815	-	1,208,815
Supranational	-	29,858,329	-	29,858,329
Commercial paper	-	35,969,792	-	35,969,792
Certificates of deposit	-	148,728,528	-	148,728,528
	\$ 327,894,991	\$ 1,248,381,552	\$ -	\$ 1,576,276,543

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Note 4 – Capital Assets

Capital assets activity during the year ended June 30, 2023, consisted of the following:

	June 30, 2022	Additions	Retirements	Transfers	June 30, 2023
Capital assets not being depreciated					
Land	\$ 11,912,499	\$ -	\$ -	\$ -	\$ 11,912,499
Construction in progress	3,507,883	6,499,838	-	(6,964,492)	3,043,229
	<u>15,420,382</u>	<u>6,499,838</u>	<u>-</u>	<u>(6,964,492)</u>	<u>14,955,728</u>
Capital assets being depreciated					
Furniture and equipment	8,314,975	-	(81,528)	703,414	8,936,861
Computers and software	39,307,282	-	(7,882,165)	4,930,402	36,355,519
Leasehold improvements	5,059,409	-	(2,400)	239,717	5,296,726
Building	63,092,357	-	(300,000)	1,090,959	63,883,316
	<u>115,774,023</u>	<u>-</u>	<u>(8,266,093)</u>	<u>6,964,492</u>	<u>114,472,422</u>
Less: accumulated depreciation for					
Furniture and equipment	6,909,422	523,445	(81,528)	-	7,351,339
Computers and software	33,589,790	4,070,843	(7,868,331)	-	29,792,302
Leasehold improvements	5,017,129	37,220	(2,400)	-	5,051,949
Building	18,814,022	2,529,411	(300,000)	-	21,043,433
	<u>64,330,363</u>	<u>7,160,919</u>	<u>(8,252,259)</u>	<u>-</u>	<u>63,239,023</u>
Total depreciable assets, net	<u>51,443,660</u>	<u>(7,160,919)</u>	<u>(13,834)</u>	<u>6,964,492</u>	<u>51,233,399</u>
Capital assets, net	<u>\$ 66,864,042</u>	<u>\$ (661,081)</u>	<u>\$ (13,834)</u>	<u>\$ -</u>	<u>\$ 66,189,127</u>

Capital asset activity during the year ended June 30, 2022, consisted of the following:

	June 30, 2021	Additions	Retirements	Transfers	June 30, 2022
Capital assets not being depreciated					
Land	\$ 5,876,002	\$ 6,036,497	\$ -	\$ -	\$ 11,912,499
Construction in progress	267,512	5,207,679	-	(1,967,308)	3,507,883
	<u>6,143,514</u>	<u>11,244,176</u>	<u>-</u>	<u>(1,967,308)</u>	<u>15,420,382</u>
Capital assets being depreciated					
Furniture and equipment	8,074,334	-	-	240,641	8,314,975
Computers and software	38,173,040	-	-	1,134,242	39,307,282
Leasehold improvements	5,063,118	-	-	(3,709)	5,059,409
Building	45,901,220	16,595,003	-	596,134	63,092,357
	<u>97,211,712</u>	<u>16,595,003</u>	<u>-</u>	<u>1,967,308</u>	<u>115,774,023</u>
Less: accumulated depreciation for					
Furniture and equipment	6,372,964	536,458	-	-	6,909,422
Computers and software	29,618,855	3,970,935	-	-	33,589,790
Leasehold improvements	4,950,031	67,098	-	-	5,017,129
Building	16,685,495	2,128,527	-	-	18,814,022
	<u>57,627,345</u>	<u>6,703,018</u>	<u>-</u>	<u>-</u>	<u>64,330,363</u>
Total depreciable assets, net	<u>39,584,367</u>	<u>9,891,985</u>	<u>-</u>	<u>1,967,308</u>	<u>51,443,660</u>
Capital assets, net	<u>\$ 45,727,881</u>	<u>\$ 21,136,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,864,042</u>

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The Organization recognized depreciation expense of approximately \$4,515,000 and \$4,486,000 during the years ended June 30, 2023 and 2022, respectively. During the years ended June 30, 2023 and 2022, depreciation expense of approximately \$108,000 and \$92,000, respectively, was included within PACE medical expenses on the accompanying statements of revenues, expenses, and changes in net position.

Note 5 – Medical Claims Liability

Medical claims liability consisted of the following as of June 30:

	2023	2022
Claims payable or pending approval	\$ 52,909,889	\$ 48,231,910
Provisions for IBNR claims	281,083,867	253,620,811
	\$ 333,993,756	\$ 301,852,721

The cost of health care services is recognized in the period in which care is provided and includes an estimate of the cost of services that has been IBNR. CalOptima Health estimates accrued claims payable based on historical claims payments and other relevant information. Unpaid claims adjustment expenses are an estimate of the cost to process the IBNR claims and are included in medical claims liability. Estimates are continually monitored and analyzed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided.

The following is a reconciliation of the medical claims liability for the years ended June 30:

	2023	2022
Beginning balance	\$ 301,852,721	\$ 288,919,790
Incurred		
Current	2,099,911,537	2,231,310,673
Prior	(65,796,666)	(88,742,120)
	2,034,114,871	2,142,568,553
Paid		
Current	1,765,917,781	1,929,457,952
Prior	236,056,055	200,177,670
	2,001,973,836	2,129,635,622
Ending balance	\$ 333,993,756	\$ 301,852,721

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Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately adjudicated and paid. Liabilities at any year end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared to the originally established prior reporting period liability. Negative amounts reported for incurred, related to prior years, result from claims being adjudicated and paid for amounts less than originally estimated. The results included a decrease of prior year incurred of approximately \$66,797,000 and \$88,742,000 for the fiscal years ended June 30, 2023 and 2022, respectively. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

The amounts accrued in the due to the State of California and CMS line item represent excess payments from DHCS that are primarily due to capitation payments received that do not reflect the current Medi-Cal rates issued by DHCS. DHCS continues to process the recoupments and the remaining overpayments not yet recouped are included within the due to the State of California and CMS line item on the statements of net position.

Note 6 – Defined Benefit Pension Plan

Plan description – CalOptima Health’s defined benefit pension plan, the CalPERS Plan, provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and/or beneficiaries. The CalPERS Plan is part of the public agency portion of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Optional contract provisions are available through the Public Employees’ Retirement Law. CalOptima Health selects optional benefit provisions by contracting with CalPERS and adopting those benefits through Board of Directors approval (See “Benefits Provided” below for more details). CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for CalPERS. Copies of the report can be obtained from CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Benefits provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and/or beneficiaries. Pension benefits are based on plan members’ years of service, age and final compensation (three-year average) at the time of retirement. Members with five years of total service are eligible to retire at age 50 (Classic Member) or age 52 (New Member) with statutorily reduced benefits. All members are eligible for non-duty disability benefits if they have at least five years of service credit. Optional provisions elected by CalOptima Health include a 3% Cost of Living Allowance (Section 21335), 1959 Survivor Benefit Level 3 (Section 21573), \$5,000 Retired Death Benefit (Section 21623.5), a 3-Year Final Compensation Period (Section 20037), Pre-Retirement Death Benefits to Continue After Remarriage of Survivor (Section 21551), as well as service credit purchase options for military and peace corps service (Section 21024 and 21023.5, respectively).

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The CalPERS Plan’s provisions and benefits in effect as of June 30, 2023, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2 % at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 plus	52 plus
Monthly benefits as a % of eligible compensation	1.092%-2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	7.75%
Required employer contribution rates	8.41%	8.41%

The following is a summary of plan participants:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Active employees	1,583	1,445
Retirees and beneficiaries		
Receiving benefits	220	192
Deferred retirement benefits		
Terminated employees	1,222	1,136
Surviving spouses	5	3
Beneficiaries	1	0

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 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. The active employee contribution rate is 7.75 percent (PEPRA New Members) and 7.0 percent (Classic Members) of annual pay for the years ended June 30, 2023 and 2022, respectively. The employer’s contribution rate is 8.41 percent and 8.52 percent of annual payroll for the years ended June 30, 2023 and 2022, respectively.

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CalOptima Health's net pension liability for the CalPERS Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For the measurement period ended June 30, 2022 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2021 total pension liability. Total pension liabilities were based on the following actuarial methods and assumptions as of June 30, 2022 and June 30, 2021:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Discount rate	6.90%
Inflation	2.30%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.0% Net of Pension Plan Investment and Administrative Expenses; Includes Inflation
Mortality rate table	Derived using CalPERS' Membership data for all funds
Post-retirement benefit increase	Floor on Purchasing Power applies, 2.30% thereafter

The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

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Discount rate and long-term rate of return – The discount rate used to measure the total pension liability was 6.90 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points.

The table below reflects long-term expected real rate of return by asset class.

<u>Asset Class</u>	<u>Assumed Return Allocation</u>	<u>Real Return⁽¹⁾</u>
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%

(1) An expected inflation of 2.3% was used for this period

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The following presents the net pension liability of the CalPERS Plan calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	June 30, 2023		
	Current		
	Discount Rate -1% 5.90%	Discount Rate 6.90%	Discount Rate +1% 7.9%
Net pension liability	\$ 88,612,198	\$ 40,465,145	\$ 1,732,263
	June 30, 2022		
	Current		
	Discount Rate -1% 6.15%	Discount Rate 7.15%	Discount Rate +1% 8.15%
Net pension liability	\$ 40,373,662	\$ 577,854	\$ (31,585,618)

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Pension expense and deferred outflows/inflows of resources related to pensions – CalOptima Health recognized pension expense of approximately \$16,255,000 and \$6,790,000 for the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, CalOptima Health recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions from employers subsequent to the measurement date	\$ 2,375,580	\$ -
Net differences between projected and actual earnings on plan investments	12,718,340	-
Changes in assumptions	7,732,138	(1,202,155)
Differences between expected and actual experiences	1,547,292	(2,185,361)
	\$ 24,373,350	\$ (3,387,516)
	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions from employers subsequent to the measurement date	\$ 1,931,845	\$ -
Net differences between projected and actual earnings on plan investments	-	(20,982,636)
Changes in assumptions	2,325,077	(1,909,305)
Differences between expected and actual experiences	2,353,671	(686,563)
	\$ 6,610,593	\$ (23,578,504)

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The deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2023. The differences reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Deferred Outflows of Resources
Years Ending June 30,	
2023	\$ 4,056,867
2024	2,931,879
2025	2,302,871
2026	7,953,241
2027	898,026
Thereafter	467,370
	\$ 18,610,254

Note 7 – Employee Benefit Plans

Deferred compensation plan – CalOptima Health sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the “457 Plan”) under which employees are permitted to defer a portion of their annual salary until future years. CalOptima Health may make discretionary contributions to the 457 Plan as determined by the Board of Directors. For the years ended June 30, 2023 and 2022, no discretionary employer contributions were made.

Defined contribution plan – Effective January 1, 1999, CalOptima Health established a supplemental retirement plan for its employees called the CalOptima Public Agency Retirement System Defined Contribution Supplemental Retirement Plan (“PARS Plan”). All regular and limited-term employees are eligible to participate in the PARS Plan. The current PARS Plan design does not require employee contributions. CalOptima Health makes discretionary employer contributions to the PARS Plan as authorized by the Board of Directors. Vesting occurs over 16 quarters of service. For the years ended June 30, 2023 and 2022, CalOptima Health contributed approximately \$5,777,000 and \$4,743,000, respectively.

Note 8 – Postemployment Health Care Plan

Plan description – CalOptima sponsors and administers a single-employer defined-benefit postemployment healthcare plan (the Plan) to provide medical, dental, and vision insurance benefits to eligible retired employees and their beneficiaries. Plan members receiving benefits contribute at the same rate as current active employees. Benefit provisions are established and may be amended by the CalOptima Board of Directors.

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Effective January 1, 2004, CalOptima terminated postemployment healthcare benefits for employees hired on or after January 1, 2004. For employees hired prior to January 1, 2004, the employee's eligibility for retiree health benefits remains similar to the eligibility requirements for the defined benefit pension plan. Surviving spouses are also eligible for this benefit.

During the year ended June 30, 2006, CalOptima Health modified the benefit offered to eligible participants, requiring participants to enroll in Medicare and specifying that CalOptima Health would be responsible only for the cost of Medicare supplemental coverage, subject to a cost sharing between the participant and CalOptima Health.

For purposes of measuring the total postemployment retirement liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalOptima's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

U.S. GAAP requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Measurement date	June 30, 2022
Measurement period	July 1, 2021 - June 30, 2022
Valuation date	January 1, 2022

Covered employees – The following numbers of participants were covered by the benefit terms as of June 30:

	<u>2023</u>	<u>2022</u>
Inactives currently receiving benefits	76	72
Active employees	65	73
Inactives entitled to but not yet receiving benefits	<u>3</u>	<u>-</u>
Total	<u>144</u>	<u>145</u>

Contributions – The contribution requirements of plan members and CalOptima Health are established and may be amended by the Board of Directors. CalOptima Health's contribution is based on projected pay-as-you-go financing requirements, with no additional amount to prefund benefits. CalOptima Health contributed \$528,000, which related to implied subsidies, for the year ended June 30, 2023. CalOptima Health contributed \$529,000, including \$464,000 in premium payments for retirees and \$65,000 for implied subsidies, for the year ended June 30, 2022. The most recent actuarial report for the postemployment health care plan was June 30, 2022. As of that point, the actuarial accrued liability and unfunded actuarial accrued liability for benefits were approximately \$18,975,000.

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Actuarial assumptions – CalOptima Health’s total postemployment retirement liability was measured as of June 30, 2022, and the total postemployment retirement liability used to calculate the total postemployment retirement liability was determined by an actuarial valuation dated January 1, 2022, that was rolled forward to determine the June 30, 2022 total postemployment retirement liability, based on the following actuarial methods and assumptions:

Salary increases	2.75% per annum, in aggregate
Medical trend	Non-Medicare – 6.5% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare (Non-Kaiser) – 5.65% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare (Kaiser) – 4.6% for 2023, decreasing to an ultimate rate of 3.75% in 2076
Discount rate	3.54% at June 30, 2022, Bond Buyer 20 Index 2.16% at June 30, 2021, Bond Buyer 20 Index
Mortality, retirement	CalPERS 2000-2019 Experience Study Post-retirement mortality projected fully generational with Scale MP-2021
General inflation	2.50% per annum

Discount rate and long-term rate of return – The discount rate used to measure the total OPEB liability was 3.54 percent for June 30, 2022. There were no plan investments; as such, the expected long-term rate of return on investment is not applicable.

Changes in the net OPEB liability – Changes in the net OPEB liability were as follows:

Balance at June 30, 2022	<u>\$ 22,178,000</u>
Changes for the year	
Service cost	668,000
Interest	487,000
Assumption changes	<u>(3,829,000)</u>
Net changes	<u>(3,203,000)</u>
Balance at June 30, 2023	<u><u>\$ 18,975,000</u></u>

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Balance at June 30, 2021	\$ 31,610,000
Changes for the year	
Service cost	1,149,000
Interest	718,000
Actual vs. expected experience	(6,241,000)
Assumption changes	(4,514,000)
Benefit payments	(544,000)
	(9,432,000)
Net changes	(9,432,000)
Balance at June 30, 2022	\$ 22,178,000

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (2.54%)	Current Rate (3.54%)	1% Increase (4.54%)
Total OPEB liability	\$ 21,645,000	\$ 18,975,000	\$ 16,764,000

Sensitivity of the net OPEB liability to changes in health care cost trend rates – The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using health care cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

	1% Decrease	Current Rate	1% Increase
Total OPEB liability	\$ 16,282,000	\$ 18,975,000	\$ 22,325,000

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For the years ended June 30, 2023 and 2022, respectively CalOptima Health recognized a reduction to OPEB expense of approximately \$1,679,000 and \$566,000. As of June 30, 2023 and 2022, the reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,867,000
Changes in assumptions	1,068,000	4,921,000
Employer contributions made subsequent to measurement date	528,000	-
Total	\$ 1,596,000	\$ 7,788,000
	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 4,822,000
Changes in assumptions	2,486,000	3,389,000
Employer contributions made subsequent to measurement date	529,000	-
Total	\$ 3,015,000	\$ 8,211,000

The \$528,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2023 measurement date will be recognized as a reduction of the total post-employment retirement liability during the fiscal year ended June 30, 2023.

Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

	Deferred Inflows of Resources
Years Ending June 30,	
2024	\$ (2,821,000)
2025	(3,016,000)
2026	(883,000)
	\$ (6,720,000)

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The required schedule of changes in total OPEB liability immediately following the notes to the financial statements presents multiyear trend information about the actuarial accrued liability for benefits.

Note 9 – Restricted Net Position

On June 28, 2000, CalOptima Health became a fully licensed health care service plan under the Act, as required by statutes governing the Healthy Families program. Under the Act, CalOptima Health is required to maintain and meet a minimum level of TNE as of June 30, 2023 and 2022, of \$107,969,096 and \$107,345,553, respectively. As of June 30, 2023 and 2022, the Organization is in compliance with its TNE requirement.

The Act further required that CalOptima Health maintain a restricted deposit in the amount of \$300,000. CalOptima Health met this requirement as of June 30, 2023 and 2022.

Note 10 – Lease Commitments

CalOptima Health leases office space and equipment under noncancelable, long-term operating leases, with minimum annual payments as follows:

	Minimum Lease Payments
Years Ending June 30,	
2024	\$ 611,457
2025	631,929
2026	653,016
2027	710,210
2028	768,055
Thereafter	2,871,040
	\$ 6,245,706

Rental expense under operating leases was approximately \$713,000 and \$592,000 for the years ended June 30, 2023 and 2022, respectively.

Note 11 – Contingencies

Litigation – CalOptima Health is party to various legal actions and is subject to various claims arising in the ordinary course of business. Management believes that the disposition of these matters will not have a material adverse effect on CalOptima Health’s financial position or results of operations.

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Regulatory matters – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties. Management believes that CalOptima Health is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 12 –Subscription-based Information Technology Arrangements

CalOptima Health has several subscription contracts that expire at various dates through 2027 with some having certain renewal options. For those contracts where renewal options are reasonably certain to be exercised, CalOptima Health recognizes renewal option periods in the determinations of its intangible right-to-use subscription assets and SBITA subscription liabilities. CalOptima Health uses various rates ranging from 3.25 percent to 8 percent to determine the present value of the SBITA subscription liabilities. The amortization on the intangible subscription asset amounted to approximately \$3,600,000 and \$80,000 during the years ended June 30, 2023 and 2022, respectively and is included in depreciation and amortization on the statement of revenues, expenses and changes in net position. As of June 30, 2023 and June 30, 2022 CalOptima Health recognized approximately \$18,018,000 and \$261,000, respectively, in intangible right-to-use subscription assets which is comprised of the intangible right-to-use subscription asset cost of approximately \$21,733,000 and \$341,000, respectively, less accumulated amortization of approximately \$3,714,000 and \$80,000, respectively. As of June 30, 2023 and June 30, 2022 CalOptima Health recognized approximately \$16,730,000 and \$220,000, respectively, in SBITA subscription liabilities.

The future subscription payments under SBITA agreements as of June 30, 2023 are as follows:

	Subscriptions		
	Principal	Interest	Total
Years Ending June 30,			
2024	\$ 5,282,158	\$ 925,959	\$ 6,208,117
2025	5,381,104	632,979	6,014,083
2026	3,895,440	390,546	4,285,986
2027	4,159,153	126,834	4,285,987
	Total undiscounted cash flows	2,076,318	20,794,173
	Less: present value discount		4,063,894
	Total subscription liabilities		<u>\$ 16,730,279</u>

Supplementary Information

**Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment
Integrated Medical Assistance dba CalOptima Health
Schedule of Changes in Net Pension Liability and Related Ratios
Years Ended June 30**

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability									
Service cost	\$ 17,958,280	\$ 16,033,791	\$ 15,223,385	\$ 14,303,164	\$ 13,491,596	\$ 13,118,795	\$ 10,272,406	\$ 8,363,183	\$ 6,464,105
Interest	17,450,590	15,591,711	13,770,107	12,107,314	10,431,464	9,136,725	7,702,198	6,620,025	5,661,111
Differences between expected and actual experience	8,006,529	(477,252)	(405,662)	1,904,567	2,812,748	632,642	102,384	1,444,808	-
Changes in assumptions	(1,930,719)	-	-	-	(4,737,905)	9,163,547	-	(1,963,270)	-
Benefit payments, including refunds of employee contributions	(4,332,714)	(3,311,997)	(3,576,922)	(2,841,212)	(2,748,699)	(2,068,356)	(2,111,578)	(1,676,666)	(1,326,364)
Net change in total pension liability	37,151,966	27,836,253	25,010,908	25,473,833	19,249,204	29,983,353	15,965,410	12,788,080	10,798,852
Total pension liability – beginning	240,018,505	212,182,252	187,171,344	161,697,511	142,448,307	112,464,954	96,499,544	83,711,464	72,912,613
Total pension liability – ending	277,170,471	240,018,505	212,182,252	187,171,344	161,697,511	142,448,307	112,464,954	96,499,544	83,711,465
Plan fiduciary net position									
Contributions – employer	\$11,688,269	10,742,812	9,608,656	8,661,466	7,588,200	5,234,580	3,787,544	3,033,171	3,119,804
Contributions – employee	8,634,939	7,981,938	7,518,241	6,853,391	6,213,420	5,793,911	4,951,820	4,142,126	3,385,296
Net investment income	(18,576,662)	42,647,021	8,189,430	9,377,613	10,225,467	11,496,425	498,498	1,913,380	12,062,654
Benefit payments, including refunds of employee contributions	(4,332,714)	(3,311,997)	(3,576,922)	(2,841,212)	(2,748,699)	(2,068,356)	(2,111,578)	(1,676,666)	(1,326,364)
Other changes in fiduciary net position	(149,157)	(181,370)	(225,629)	(98,234)	(530,428)	(143,264)	(54,828)	(101,246)	-
Net change in fiduciary net position	(2,735,325)	57,878,404	21,513,776	21,953,024	20,747,960	20,313,296	7,071,456	7,310,765	17,241,390
Plan fiduciary net position – beginning	239,440,651	181,562,247	160,048,471	138,095,447	117,347,487	97,034,191	89,962,735	82,651,970	65,410,580
Plan fiduciary net position – ending	236,705,326	239,440,651	181,562,247	160,048,471	138,095,447	117,347,487	97,034,191	89,962,735	82,651,970
Plan net pension liability – ending	\$ 40,465,145	\$ 577,854	\$ 30,620,005	\$ 27,122,873	\$ 23,602,064	\$ 25,100,820	\$ 15,430,763	\$ 6,536,809	\$ 1,059,495
Plan fiduciary net position as percentage of the total liability	85.40%	99.76%	85.57%	85.51%	85.40%	82.38%	86.28%	93.23%	98.73%
Covered-employee payroll	\$ 109,836,572	\$ 103,913,095	\$ 98,088,822	\$ 91,587,145	\$ 85,764,390	\$ 80,217,654	\$ 68,583,296	\$ 55,676,606	\$ 40,940,556
Plan net pension liability as a percentage of covered-employee payroll	36.84%	0.56%	31.22%	29.61%	27.52%	31.29%	22.50%	11.74%	2.59%

**Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment
Integrated Medical Assistance dba CalOptima Health
Schedule of Plan Contributions
Years Ended June 30**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 11,688,269	\$ 10,742,812	\$ 9,608,656	\$ 8,661,466	\$ 7,588,200	\$ 5,234,580	\$ 3,787,544	\$ 3,033,171	\$ 3,119,804
Contributions in relation to the actuarially determined contribution	<u>(11,688,269)</u>	<u>(10,742,812)</u>	<u>(9,608,656)</u>	<u>(8,661,466)</u>	<u>(7,588,200)</u>	<u>(5,234,580)</u>	<u>(3,787,544)</u>	<u>(3,033,171)</u>	<u>(3,119,804)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 109,836,572	\$ 103,913,095	\$ 98,088,822	\$ 91,587,145	\$ 85,764,390	\$ 80,217,654	\$ 68,583,296	\$ 55,676,606	\$ 40,940,556
Contributions as a percentage of covered-employee payroll	10.64%	10.34%	9.80%	9.46%	8.85%	6.53%	5.52%	5.45%	7.62%

**Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment
Integrated Medical Assistance dba CalOptima Health
Schedule of Changes in Total OPEB Liability and Related Ratios
Periods Ended June 30**

	2022-2023 (Measurement Period 2021-2022)	2021-2022 (Measurement Period 2020-2021)	2020-2021 (Measurement Period 2019-2020)	2019-2020 (Measurement Period 2018-2019)	2018-2019 (Measurement Period 2017-2018)	2017-2018 (Measurement Period 2016-2017)
Changes in total OPEB liability						
Service cost	\$ 668,000	\$ 1,149,000	\$ 811,000	\$ 832,000	\$ 867,000	\$ 1,012,000
Interest	487,000	718,000	922,000	977,000	900,000	770,000
Actual vs. expected experience	-	(6,241,000)	-	(1,072,000)	-	-
Assumption changes	(3,829,000)	(4,514,000)	4,623,000	938,000	(1,067,000)	(2,923,000)
Benefit payments	(529,000)	(544,000)	(570,000)	(556,000)	(560,000)	(572,000)
Net changes	(3,203,000)	(9,432,000)	5,786,000	1,119,000	140,000	(1,713,000)
Total OPEB liability (beginning of year)	22,178,000	31,610,000	25,824,000	24,705,000	24,565,000	26,278,000
Total OPEB liability (end of year)	<u>\$ 18,975,000</u>	<u>\$ 22,178,000</u>	<u>\$ 31,610,000</u>	<u>\$ 25,824,000</u>	<u>\$ 24,705,000</u>	<u>\$ 24,565,000</u>
Total OPEB liability	\$ 18,975,000	\$ 22,178,000	\$ 31,610,000	\$ 25,824,000	\$ 24,705,000	\$ 24,565,000
Covered employee payroll	8,864,000	9,126,000	8,513,000	8,353,000	8,150,000	9,135,000
Total OPEB liability as a percentage of covered employee payroll	214.1%	243.0%	371.3%	309.2%	303.1%	268.9%