CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Financial Statements and
Required Supplementary Information
(With Independent Auditor's Report Thereon)

Years ended June 30, 2023 and 2022

MGO. Certified Public Accountants

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
June 30, 2023 and 2022

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Independent Auditor's Report

To the Audit Committee, Executive Director
And Chief Financial Officer, of the
California Health Benefit Exchange
Sacramento, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the California Health Benefit Exchange (Covered California), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Covered California's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Covered California, as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1(n) to the financial statements, effective July 1, 2022, Covered California adopted the provisions of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Covered California's ability to continue as a going concern for twelve months beyond the 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of plan contributions related to pension, the schedule of proportionate share of the net OPEB liability, and schedule of contributions related to OPEB, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2024, on our consideration of Covered California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covered California's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California
May 28, 2024

Management's Discussion and Analysis (Unaudited)

The Management Discussion and Analysis (Unaudited) (MD&A) provides a narrative overview and analysis of the financial condition, results of operations, and cash flows for the California Health Benefit Exchange (hereafter referred to as Covered California) for the fiscal year ending June 30, 2023. The MD&A is intended to serve as an introduction to Covered California's financial statements, which have the following components: (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, (3) Statement of Cash Flows, and (4) Notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters and provides an overview of Covered California's financial activities. The following discussion is highly summarized, and to gain a thorough understanding of Covered California's financial position, the succeeding financial statements, and notes should be reviewed in their entirety.

Covered California was established on September 30, 2010, as an independent state agency governed by a five-member board, and receives no state general fund appropriation for operations. Covered California generates revenues to cover operating and capital expenses by charging a participation fee on monthly gross premiums collected by qualified health plan issuers.

This section begins with a brief review of the unique events that affected Covered California's FY 2022-23 operations. During FY 2022-23, inflation rose substantially. In turn, the Federal Reserve aggressively used monetary policy to tame inflation, which resulted in increased federal funds rates and borrowing costs. Higher interest rates resulted in increased nonoperating income, as Covered California's short-term investments earned greater interest income. The higher interest rates brought fears of a recession, and debate on whether it would occur during FY 2022-23. California's labor market recovery continued throughout FY 2022-23, and with it brought a tight labor market. The tight labor market may have contributed to a slight year-over-year decrease in member months as individuals secured employer-sponsored insurance. The uncertainty over the enhanced federal advanced premium tax credits (APTC) was settled in August 2022, when they were extended through 2025. Finally, the Medi-Cal unwind, which was anticipated to commence in the latter part of FY 2022-23 was delayed to the next FY, resulting in fewer enrollments than forecasted in the budget.

As Covered California entered FY 2022-23, inflation was at a 40-year high. Consumer prices were up 9.1 percent over the year ended June 2022. In response, the Federal Reserve raised the federal funds rate 8 times throughout FY 2022-23 to bring inflation back to its 2.0 percent target. The federal funds rate rose from 0.25 percent to 5.25 percent. As the budget year unfolded, there was concern that the Federal Reserve's actions might slow the economy and, possibly, result in a recession. The hope was that the Federal Reserve would engineer a soft landing, as it used monetary policy to managed inflation. The war in Ukraine also amplified economic forces already shaping the pandemic recovery. The war increased commodity prices and intensified supply disruptions, which added to inflation pressure.

The recession did not materialize during FY 2022-23. However, the higher interest rates did result in favorable non-operating interest revenue gains. The Surplus Money Investment Fund (SMIF) interest rate, where Covered California invests its excess funds, rose from 0.654 percent to 2.511 percent, or more than 3.8 times. This resulted in increased non-operating interest revenue and a favorable non-operating revenue budget variance.

By March 2022, California's labor market had recognized a recovery from the pandemic-induced unemployment rates. The unemployment rate returned to its pre-pandemic level in February 2020. California's labor market does influence Covered California enrollment trends to some extent. A tight labor market has the potential to exert downward pressure on enrollment. The State experienced a robust labor recovery following the pandemic-induced recession. California reached a historically low 3.8 percent unemployment rate in July and August 2022. Following the historical low, the unemployment rate rose 0.8 percentage points over FY 2022-23. California's seasonally adjusted unemployment rate stood at 4.6 percent in July 2023. According to the California Employment Development Department, the rising unemployment trend over the FY appeared to reflect an overly tight labor market adjusting itself to a more sustainable footing.

Covered California's FY 2022-23 budget assumed that the enhanced ARPA subsidies would expire at the end of 2022, which was consistent with the law at the time. Consequently, Covered California's budget forecast expected a decline in enrollment as consumers faced higher healthcare coverage costs. However, On August 16, 2022, as part of the Inflation Reduction Act, the Senate passed an extension of the enhanced subsidies for three-years, through 2025. The extension of the enhanced ARPA subsidies meant that budget-forecasted enrollment losses did not occur.

The uncertainty regarding the end of the public health emergency was settled when President Biden signed into law the Consolidated Appropriations Act of 2023. This legislation ended the continuous enrollment provision on March 31, 2023, and Medi-Cal's terminations from the resumption of eligibility reviews were to begin in July 2023. During the latter part of FY 2022-23, Covered California targeted spending at ensuring Medi-Cal transitions occurred smoothly. This involved additional investments in marketing and outreach efforts, which were absorbed by favorable budget variances.

Financial Statements

The accounting policies of Covered California conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. Covered California's comprehensive financial statements are prepared on an economic resources' measurement focus using an accrual basis of accounting.

Overall Financial Highlights

Fiscal Year 2022-23

- The June 30, 2023 net position totaled $125.0 million, which was $106.9 million more than the June 30, 2022 total of $18.1 million (**Table 1**).

- Covered California recognized operating revenues totaling $417.3 million in FY 2022-23, up from $407.4 million in FY 2021-22 (**Table 2**).

- FY 2022-23 operating expenses totaled $322.1 million, which was $57.5 million less than FY 2021-22 (**Table 2**). The primary driver of the year-over-year difference resulted from GASB 75 OPEB adjustments. Covered California's proportionate share of the state's net OPEB liability for retiree health care coverage declined by $99.6 million year-over-year.

- In FY 2022-23, Covered California recognized operating income of $95.3 million which was $67.5 million greater than 2021-22 FY's operating income (**Table 2**).

- Covered California recognized $10.6 million in non-operating income in FY 2022-23, which when combined with the operating income of $95.3 million increased net position by $105.8 million. (**Table 2**).

- Cash and cash equivalents totaled $567.2 million at June 30, 2023 (**Table 1**).

- Cash flows from operating activities for FY2022-23 totaled $75.1 million. Overall, cash increased by $56.9 million over the FY (**Table 6**).

Fiscal Year 2021-22

- The June 30, 2022 net position totaled $18.1 million (**Table 1**).

- Covered California recognized operating revenues totaling $407.4 million in FY 2021-22 (**Table 2**).

- FY 2021-22 operating expenses totaled $379.6 million (**Table 2**).

- In FY 2021-22, Covered California recognized an operating income of $27.8 million (**Table 2**).

- Covered California's net position increased by $30.7 million in FY 2021-22 (**Table 2**).

- On June 30, 2022, Covered California's working capital equaled $464.2 million Working capital represents the difference between current assets and current liabilities and is a commonly used measure of liquidity.

- Cash flows from operations for FY 2021-22 totaled $55.0 million (**Table 6**).

- In FY 2021-22, overall cash inflows exceeded cashflows. Total cash inflows equaled $405.7 million, while total cash outflows equaled $374.0 million. This resulted in cash inflows exceeding outflows by $31.7 million (**Table 3**).

Summary of the Statement of Net Position

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

Table 1
Covered California
Condensed Summary of Net Position

	2023	2022	2021
Cash	$ 567,171,006	$ 510,254,920	$ 478,579,584
Other Current Assets	43,432,644	42,241,342	36,186,008
Capital assets, net	124,594,297	140,779,858	134,768,137
Total assets	735,197,947	693,276,120	649,533,729
Deferred outflows of resources	127,816,107	82,530,414	66,116,656
Total assets and deferred outflows of resources	863,014,054	775,806,534	715,650,385
Current liabilities	96,417,696	87,978,916	84,970,000
Noncurrent liabilities			
Other noncurrent liabilities	24,639,665	32,653,559	19,959,615
Net OPEB liabililty	279,595,000	379,189,000	365,122,000
Net pension liability	235,140,336	133,973,158	202,261,884
Noncurrent liabilities	539,375,001	545,815,717	587,343,499
Total liabilities	635,792,697	633,794,633	672,313,499
Deferred inflows of resources	102,257,536	123,946,225	55,953,462
Total liabilities and deferred inflows of resources	738,050,233	757,740,858	728,266,961
Investment in capital assets	101,186,777	114,156,993	134,768,137
Unrestricted (deficit)	23,777,044	(96,091,317)	(147,384,715)
Total net position	$ 124,963,821	$ 18,065,676	$ (12,616,578)

Statement of Net Position Highlights

Fiscal Year 2022-23

- Cash and Cash equivalents increased by $56.9 million, rising from $510.3 million to $567.2 million (**Table 1**).

- Capital assets declined year-over-year due to an increase in accumulated depreciation and lease amortization. For FY 2022-2023, capital assets declined by $16.2 million to $124.6 million from $140.8 million in FY2021-22. Capital assets include the capitalized costs associated with the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS), as well as office furniture, equipment, leasehold improvements, the right-to-use lease assets, and the newly adopted right-to-use Subscription-based information technology arrangements (SBITA) asset.

- Total assets and deferred outflows increased by $87.2 million (**Table 1**).

- Covered California's net position at June 30, 2023 totaled $125.0 million, which was $106.9 million greater than June 30, 2022. Covered California's unrestricted (i.e., net position excluding the net investment in capital assets) totaled a positive $23.8 million at June 30, 2023 (**Table 1)**

- As of June 30, 2023, the lease liability was $19.7 million (current liability of $5.4 million, non-current liability of $14.3 million) and the corresponding right-to-use lease asset was $18.8 million net of the accumulated amortization of $10.5 million. The right-to-use lease asset is associated with the adoption of Governmental Accounting Standards Board (GASB) Statement 87 implemented by Covered California on July 1, 2021.

- GASB Statement 96 was implemented on July 1, 2022. GASB 96 requires the recognition of a right-to-use subscription asset and a corresponding subscription liability for contracts that convey control of the right-to-use SBITA assets. As of June 30, 2023, the right-to-use subscription liability was $3.7 million (current liability of $2.3 million, non-current liability of $1.4 million). The corresponding right-to-use subscription asset was $4.8 million ($8.3 million is the subscription asset less the accumulated amortization of $3.5 million).

- Total current liabilities consist of $70.8 million in accounts payable for unpaid goods and services. Current liabilities include amounts due to carriers and agents for the CCSB market of $36.6 million and payables to other third parties totaling $34.2 million (**Table 1**).
- Non-current liabilities decreased by $6.4 million from $545.8 million at June 30, 2022 to $539.4 million at June 30, 2023 (**Table 1**). OPEB decreased by $99.6 million in FY 2022-23, and the pension liability increased by $101.2 million in FY 2022-23. Other non-current liabilities decreased by $8.0 million in FY 2022-23, from $32.6 million in FY 2021-22 to $24.6 million in FY 2022-23.
- Working capital was $514.2 million on June 30, 2023 (**Table 1**). Working capital, the difference between current assets and current liabilities, is a measure commonly used to assess the short-term liquidity of a business and how well the organization can cover payments for short-term commitments.

Fiscal Year 2021-22

Capital assets include the capitalized costs associated with the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) as well as office furniture, equipment, leasehold improvements, and the newly adopted Right to Use lease asset.

The Right to Use asset is a newly recognized asset that is associated with the adoption of Governmental Accounting Standards Board (GASB) Statement 87. This statement was implemented on July 1, 2021. The purpose of GASB 87 was to allow the users of government financial statements to see both the future liability of long-term leases, and the intangible value of a Right to Use asset. Beginning with FY 2021-22, Covered California will now present both the current and long-term portions of future lease payments as liabilities, as well as the offsetting value of those lease assets. As of June 30, 2022, the lease liability is $26.6 million (current liability of $5.8 million, non-current liability of $20.8 million). Also, there is a corresponding asset that reflects the right to use the leased property of $25.7 million reflected as an asset on the Statement of Net Position.

Total liabilities consist of current liabilities and noncurrent liabilities. Current liabilities of $88.3 million include accounts payable for unpaid goods and services. Noncurrent liabilities include a net OPEB liability of $379.2 million and a net pension liability of $134.0 million.

Covered California's current ratio, a common financial measure of an entity's ability to pay short-term obligations was 6.3 on June 30, 2022. Working capital was $464.2 million on June 30, 2022. Working capital is a measure commonly used to assess the short-term liquidity of a business and how well the organization can cover payments for short-term commitments.

Summary of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the revenues recognized by Covered California, both operating and non-operating, and the expenses incurred by Covered California, including operating and non-operating, and any other revenues, expenses, gains, and losses incurred by Covered California.

Table 2
Covered California
Condensed Summary of Revenues, Expenses, and Changes in Net Position
For Fiscal Years 2023, 2022 and 2021

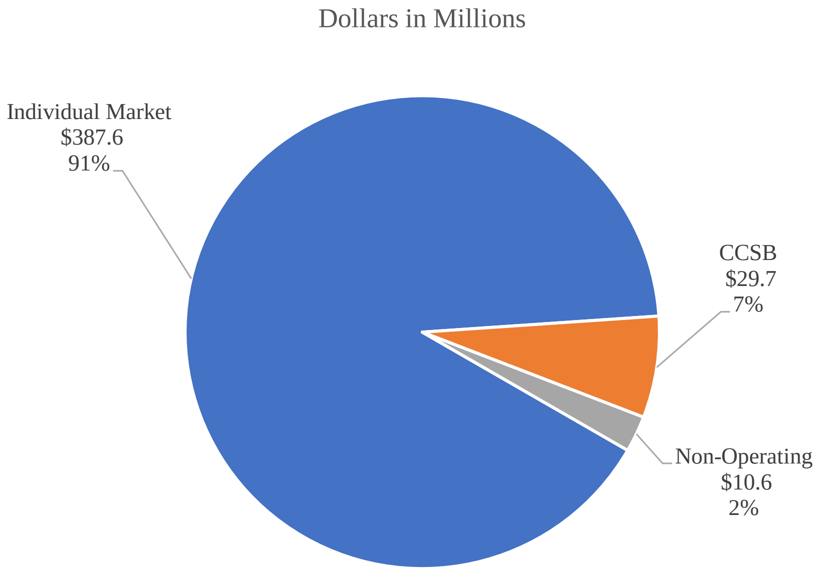
	2023	2022	2021
Revenues			
Individual Market Revenue	$ 387,632,996	$ 379,760,436	$ 355,690,379
CCSB Revenue	29,707,168	27,596,646	20,639,697
Total Operating Revenues	417,340,164	407,357,082	376,330,076
Expenses			
Salary and Wages Expenses	93,429,373	151,564,990	179,413,923
Operating Expenses	228,647,555	228,022,749	272,497,384
Total Operating Expenses	322,076,928	379,587,739	451,911,307
Operating income (loss)	95,263,236	27,769,342	(75,581,231)
Non-operating Revenue	10,570,274	2,912,912	2,246,218
Changes in net position	105,833,510	30,682,254	(73,335,013)
Total net Position- beginning of year	18,065,676	(12,616,578)	60,718,435
Cumulative effect of accounting change	1,064,635	-	-
Total net Position- end of year	$ 124,963,821	$ 18,065,676	$ (12,616,578)

Revenues

Covered California's revenues are derived from three primary sources: the individual market, the Covered California for Small Business market, and non-operating income from interest on investments. During FY 2022-23, the individual market constituted 91 percent of total revenue, while the small business market accounted for 7 percent (**Figure 1**). Individual market revenue totaled $387.6 million, and CCSB operating revenues totaled $29.7 million in FY2022-23. The total non-operating revenue accounted for $10.6 million in FY2022-23 and was mainly comprised of interest income from the Surplus Money Investment Fund (SMIF).

FY 2021-22 operating revenues totaled $407.4 million (**Table 2**). The Operating revenues flattened over the past three fiscal years, which was driven by lowering the assessment fee, slower growth in medical inflation relative to historical trends, and a more favorable risk mix.

Figure 1
Operating and Non-Operating Revenue
Fiscal Year 2022-23
(Total = $427.9 million)

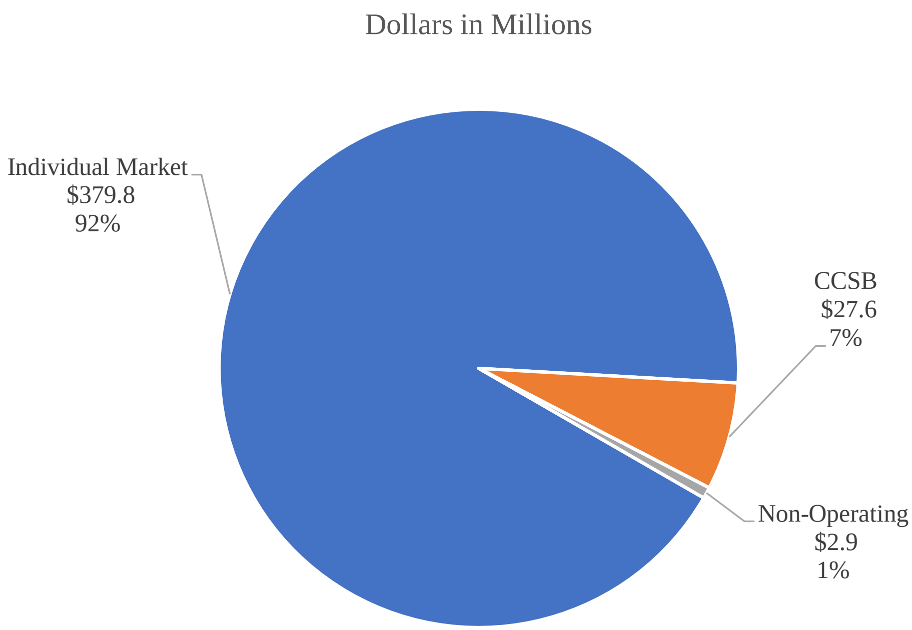


Revenue Highlights

Fiscal Year 2022-23

- FY 2022-23 operating revenues totaled $417.3 million, while non-operating revenues totaled $10.6 million. Operating and non-operating revenues combined totaled $427.9 million.
- Covered California recognized $387.6 million in individual market revenue in FY 2022-23, which was $7.9 million greater than FY 2021-22's total of $379.8 million. Individual operating revenues exceeded FY 2021-22 revenues due to price increases. While total member months were slightly down year-over-year (1.1%), gross premiums rose by 3.0 percent year-over-year.
- FY 2022-23 CCSB operating revenue totaled $29.7 million, which was $2.1 million greater than FY 2021-22. The year-over-year increase resulted from higher enrollment, which grew by 6.0 percent over FY 2021-22, from 882,406 member months to 935,445 member months.
- Non-operating revenue totaled $10.6 million for FY 2022-23. Non-operating revenue consisted primarily of interest income. The interest income was associated with income on investments held in the State's Surplus Money Investment Fund (SMIF). The year-over-year increase in interest revenue was the result of the Federal Reserve's monetary actions. The Federal Reserve increased the federal funds rate throughout FY 2022-23 in response to persistently high inflation.
- Covered California implemented a new GASB standard which changed the accounting treatment of IT contracts that span more than one fiscal year. The change in accounting amounted to approximately $1.1 million, which resulted in a restatement of the June 30, 2023 beginning net position. (Table 2).

Figure 2:
Operating And Non-Operating Revenue for Fiscal Year 2021-22
(Total = $410.3 million)



Fiscal Year 2021-22

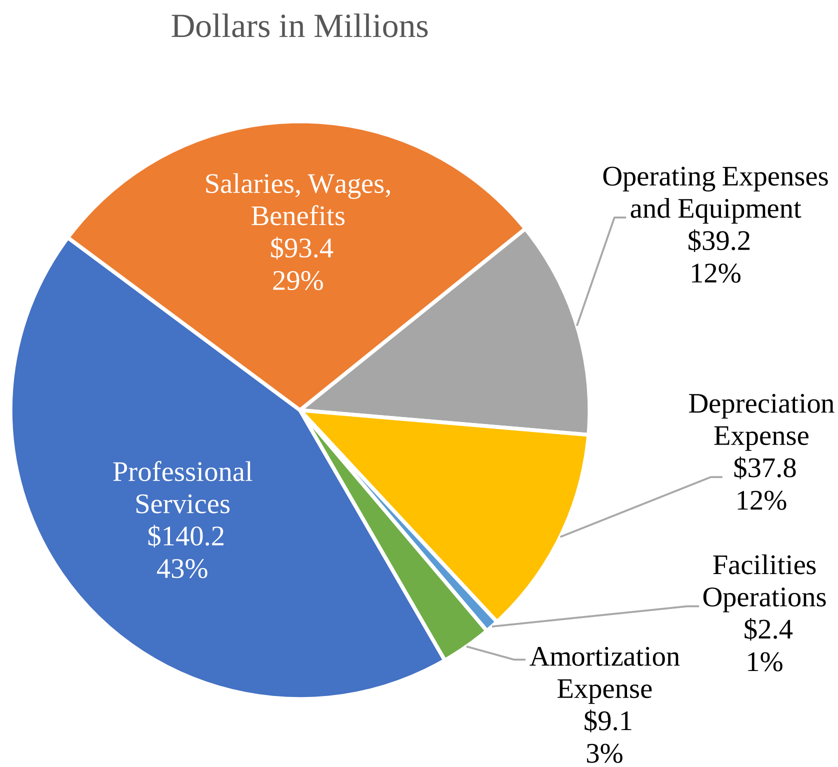
Covered California's revenues come from two primary sources: the individual market and the small business market. During FY 2021-22, the individual market constituted 93% of total revenue, while the small business market accounted for 7% (**Figure 2**). Individual market revenue totaled $379.8 million in FY 2021-22. Covered California for Small Business (CCSB) operating revenues totaled $28.0 million.

Operating revenues increased $31.5 million in FY 2021-22 to $407.4 million. Approximately $24.1 million of the FY 2021-22 increase in operating revenue originated from the individual market, while $7.0 million was generated from CCSB.

Expenses

Covered California's FY 2022-23 operating expenses totaled $322.1 million. Two categories accounted for 72 percent of all operating expenses. Salaries, Wages, and Benefits comprised 29 percent of operating expenses, while Professional Services comprised 43 percent (**Figure 3**).

Figure 3
Operating Expenses by Category
FY 2022-23
(Total = $322.1 million)



Expense Highlights

Fiscal Year 2022-23

- Total operating expenses for FY 2022-23 equaled $322.1 million, or $57.5 million less than the FY 2021-22 total of $379.6 million (**Table 2**).

- Operating expenses, which is comprised of operating expenses and equipment, professional services, facilities operations, depreciation expense and amortization expense, totaled $228.6 million for FY 2022-23. This was a $624,806 increase over the FY 2021-22 total of $228.0 million (**Table 2**).

  The FY 2022-23 salaries, wages, and benefit expenses totaled $93.4 million, or $58.1 million less than the FY 2021-22 total of $152 million (**Figure 3**). The decline in salaries, wages and benefit expenses was primarily due to a decrease in other post-employment benefits (OPEB) caused by a reduction in Covered California's proportionate share of the state's net (OPEB) liability.

  Covered California's employees are civil service members and are covered by the California Public Employees Retirement System (CalPERS). The CalPERS benefits include retiree health care coverage. Each fiscal year, Covered California is required to recognize other post-employment benefit (OPEB) liabilities and associated expenses. Due to government accounting standards board (GASB) statement 75 requirements, the recognition of the OPEB liability and associated expenses is subject to volatility. Changes in discount rates, proportional factors, and other elements all influence the year-to-year OPEB liability and expense.

  GASB statement number 75 requires Covered California to recognize the Net OPEB Liability and the annual OPEB expense on their financial statements and disclose deferred outflows and inflows for change in the Net OPEB Liability not recognized in the Annual OPEB Expense. The Net OPEB Liability is the difference between the Total OPEB Liability and the plan's Fiduciary Net Position. Plan Fiduciary Net Position equals the market value of plan assets available to pay benefits. Each fiscal year, GASB 75 requires:

  - Recognition of the Net OPEB Liability on the Statement of Net Position,
  - Development of an actuarial liability and normal cost using a blended discount rate based on a 20-year general obligation bond index if benefits are financed on a pay-as-you-go basis, and the expected return on trust assets if pre-funding assets are available to pay benefits, and
  - Development of an annual OPEB expense.

  The decrease in Covered California's Net OPEB Liability, and resulting decrease in salaries, wages, and benefit expenses between FY 2021-22 and FY 2022-23 was primarily driven by:

  - the increase in the blended discount rate, and
  - changes in Covered California's proportionate share allocation factors.

In FY 2022-23, Covered California's GASB 75 Net OPEB Liability declined from $379.2 million to $279.6 million, or $99.6 million (**Table 3**).

Table 3: Covered California's Proportionate Share of the State's Net OPEB Liability

Liability Category	2023	2022	Difference
Net other postemployment benefits	$ 279,595,000	$ 379,189,000	$ (99,594,000)

The blended discount rate increased between the current measurement date and the prior measurement date. The blended discount rate is used to discount future benefit payments to a present value. The total OPEB liability is equal to the actuarial accrued liabilities discounted to the present for the plan. The GASB 75 discount rate as of June 30, 2021, ranged from 2.68 percent to 2.95 percent. The blended discount rate as of June 30, 2022, ranged from 4.07 percent to 4.22 percent. If the rate associated with the measurement period decreases, the Total OPEB Liability increases, and conversely if the 20-year municipal bond index rate declines, the Total OPEB Liability increases. This means that year to year changes in the OPEB liability may materially swing in value and the corresponding OPEB expenses may also materially change year-over-year.

In addition to the increased blended discount rate, Covered California's proportionate share allocation factors also influenced the OPEB expenses for the period. Proportionate share calculations apply for the cost sharing multiple employer plans, allowing each employer to determine the amount of the total Net OPEB Liability and OPEB Expense to recognize.

The FY 2022-23 Statement of Revenues, Expenses, and Changes in Net Position recognized a reduction in Salaries, Wages, and Benefits expense of $73.8 million related to changes in the OPEB liability (**Table 4**). The reduction in expenses was the result of the net effect of an OPEB proportionate share decrease of $57.3 million, a decrease of $16.9 million associated with the reversal of employer contributions, and an increase associated with the current year OPEB change of $398 thousand.

Table 4: Reconciliation of Covered California's Budgetary Legal Basis Salaries, Wages, and Benefits Expenditures with Comprehensive Financial Statements Salaries, Wages and Benefits Expense

Salaries and Wages Expenditure Budgetary Legal Basis	$	162,940,222
GAAP Adjustments		
GAAP Adjustments Not Related to Pension or OPEB, Debit (+) Credit (-)		(4,107,645)
OPEB Expense, Debit (+) Credit (-)		(73,801,000)
Pension Expense, Debit (+) Credit (-)		8,397,796
Comprehensive Financial Statements	**$**	**93,429,373**

The FY 2021-22 OPEB expense total was $14.3 million, and was a ***debit*** to salaries, wages, and benefits expenses. However, in FY 2022-23, the OPEB expense allocated was a $73.8 million ***credit***, or reduction in salaries, wages, and benefits expenses (**Table 5**).

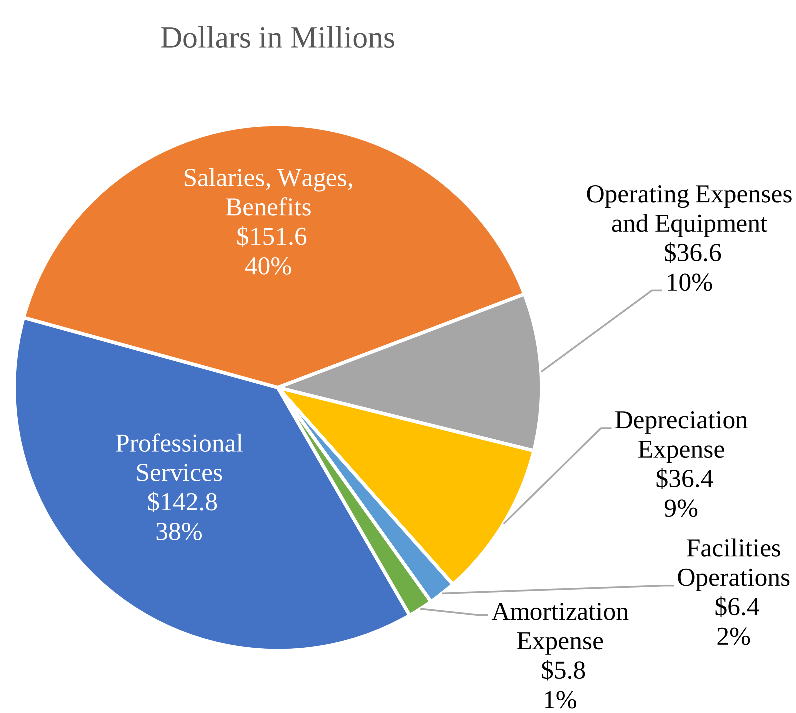
Table 5: Change in OPEB Expenses, FY 2021-22 to FY 2022-23

Expense Category	2023	2022	Difference
Salaries, wages, and benefits expense (OPEB)	$ (73,799,000)	$ 14,260,000	$ (88,059,000)

Fiscal Year 2021-22

Covered California's FY 2021-22 operating expenses totaled $379.6 million. Two categories accounted for 78 percent of all operating expenses. Salaries, Wages, and Benefits comprised 40 percent of operating expenses, while Professional Services comprised 38 percent (Figure 4).

Figure 4
Operating Expenses by Category; FY 2021-22
(Total = $379.6 million)



Summary of the Statement of Cash Flows

Fiscal Year 2022-23

The statement of cash flows presents the source(s) of Covered California's cash receipts—from providing services to consumers or borrowing, for instance—and what it used that cash for during the reporting period.

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

- Cash flows from operating activities for FY 2022-23 totaled $75.1 million (**Table 6**). Cash flows from operations represents the difference between the inflows from assessment fees and the outflows for continued operations.
- Cash flows from noncapital financing activities include the net effect of interest expense and non-sufficient fund payments. Covered California incurs interest expense on the interfund loan (SB84) that prefunded a supplemental payment to CalPERS. For FY 2022-23, cash flows from noncapital financing activities represented a net outflow of $1.6 million.
- Cash flows from capital and related financing activities represented a net outflow of $24.1 million, which consisted of $15.0 million in nontangible investments in the CalHEERS system, and $3.5 million in subscription payments related to software subscriptions. Also included is $5.5 million in lease payments related to Covered California facilities.
- Cash flows from investing activities consist primarily of interest earned on Covered California's funds maintained in the Surplus Money Investment Fund (SMIF). In FY 2022-23, interest inflows were $7.5 million. The increase in interest revenue was the result of the Federal Reserve increasing the federal funds rate.

Fiscal Year 2021-22

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

Cash flows from operating activities for FY 2021-22 totaled $55.0 million (**Table 6**). Cash flows from operations represents the difference between the inflows from participation fees and the outflows from operating expenses.

Cash flows from noncapital financing activities include the net effect of interest expense and non-sufficient fund payments. Covered California incurs interest expense on the interfund loan (SB84) that prefunded a supplemental payment to CalPERS. For FY 2021-22, cash flows from noncapital financing activities represented a net inflow of $5.9 million.

Cash flows from capital and related financing activities represented a net outflow of $18.3 million, which consisted of $12.7 million in nontangible investments in the CalHEERS system as well as $5.6 million in lease payments related Covered California facilities. The lease payments in this section of the Statement of Cash Flows are associated with the new adoption of GASB 87. Previously, the leases were considered operating leases, and the related expenses were considered operating expenses.

Cash flows from investing activities consist primarily of interest earned on Covered California's funds maintained in the Surplus Money Investment Fund (SMIF). In FY 2021-22, interest inflows were $1.0 million. The decrease in interest revenue was the result of the Federal Reserve lowering of the federal funds interest rate.

Table 6
Covered California
Condensed Statement of Cash Flows
For Fiscal Years 2022-23, 2021-22 and 2020-2021

	2023	2022	2021
Cash Inflows from Operations	$ 416,538,928	$ 404,772,590	$ 386,017,452
Less:			
Cash Outflows from Operations	341,433,661	349,878,967	383,869,034
Cash Flows From Operating Activities	75,105,267	54,893,623	2,148,418
Cash Inflows from Noncapital Financing Activities	1,274,229	472,736	354,362
Less:			
Cash Outflows from Noncapital Financing Activities	2,864,368	6,376,247	-
Cash Outflows from Investments in Capital Assets	24,068,854	18,590,541	16,938,999
Add:			
Cash Inflows from Investing Activities	7,469,812	975,766	2,933,951
Net Increase/(Decrease) in Cash	**$ 56,916,086**	**$ 31,375,336**	**$ (11,502,269)**

Budget to Actual Results

Covered California develops an annual budget each fiscal year that is approved by the Board of Directors. The budget is prepared on a budgetary basis of accounting. The budgetary basis of accounting utilizes the modified accrual basis of accounting and a current resources measurement focus. This differs from the one used for the annual comprehensive basis financial reporting, which uses an economic resources measurement focus and full accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The economic resource basis measures activity regardless of whether cash transactions transpire, such as depreciation and retirement accruals.

In FY 2022-23, Covered California recognized a favorable operating income variance of $58.7 million. Covered California's budget had assumed an operating loss of $11.4 million. This budgeted outcome resulted from assuming that enhanced federal subsidies would expire at the end of 2022 and enrollment losses of 150,000 would occur. However, the enhanced federal subsidies were extended through the end of 2025 with the passage of the Inflation Reduction Act, and enrollment losses did not ensue. Covered California's enrollment exceeded budget forecasts by 627,488 member months, resulting in a favorable revenue variance. The greater-than-forecasted revenue combined with a favorable expenditure budget variance resulted in operating income totaling $47.3 million, or $58.7 million, greater than the budgeted operating loss of $11.4 million. Non-operating revenue recognized a favorable $9.3 million budget variance primarily due to aggressive Federal Reserve monetary actions that increased the federal funds rate (**Table 7**).

Table 7
Covered California FY 2022-2023
Budget to Actual Comparison
Budgetary Accounting – non-GAAP

	2023 Budget	2023 Actuals	Variance
Total Individual Market Member Months	19,353,768	19,981,216	627,448
Total Operating Revenue	$ 399,968,903	$ 418,043,036	$ 18,074,133
Total Operating Expenditures	411,365,194	370,788,594	40,576,600
Operating Income or (Loss)	(11,396,291)	47,254,442	58,650,733
Non Operating Income	1,500,000	10,768,411	9,268,411
Change in Fund Balance	$ (9,896,291)	$ 58,022,853	$ 67,919,144

Budgetary Basis Results Compared to GAAP Basis Reconciliation

Covered California's fund balance on a budgetary basis increased by $58.0 million in FY 2022-23. The change in net position under GAAP for FY 2022-23 was a net increase of $105.8 million. **Table 8** presents a reconciliation of the differences in the change in the fund balance and net position between the budgetary basis of accounting and the GAAP basis of accounting.

Table 8
Reconciliation of Budgetary Accounting Change in Fund
Balance to Annual Comprehensive Change in Net Position

Change in Budgetary Account Fund Balance FY 2022-23	$ 58,022,854
Pension Expense	(8,397,796)
OPEB Expense	73,801,000
Capital Assets Purchases	23,670,304
Depreciation Expense	(37,768,198)
Other GAAP Adjustments	(3,494,654)
Change in Annual Comprehensive Net Position FY 2022-23	$ 105,833,510

Currently Known Facts, Decisions, or Conditions

This section of the MD&A contains a discussion of the currently known facts, decisions, or conditions that are expected to affect the financial position or results of operations. The areas that will likely have a significant impact are the expiration or extension of the ARPA-enhanced federal subsidies, and the elimination of the continuous coverage requirement in Medi-Cal.

Events that will occur in the future that will impact Covered California's enrollment, revenue, and consequently, its financial position, include the following.

1. On August 16, 2022, as part of the Inflation Reduction Act, the Senate passed a three-year extension (through 2025) of the enhanced subsidies for people buying their own health coverage on the Affordable Care Act marketplaces. The enhanced subsidies, also known as Advanced Premium Tax Credits or APTC, were passed as part of the American Rescue Plan Act (ARPA) and originally slated to last only two years (2021 and 2022). The enhanced subsidies provided under ARPA increased the amount of financial help available to consumers already eligible for subsidies, and also expanded subsidies to households with incomes above 400 percent of the Federal Poverty Level, many of whom were previously priced out of coverage.

   As a result of the extension of the subsidies, fewer individuals than earlier forecast were dissuaded from purchasing coverage due to higher premium payments after December 2022, and Covered California's enrollment and revenue were higher during the second half of the 2022-23 fiscal year (January to June 2023) than projected in the earlier budget forecast. The extension of the enhanced federal subsidies is expected to result in enrollment levels that are higher than historical trends through December 31, 2025. If the enhanced federal subsidies are not extended beyond 2025 or made permanent, Covered California expects some enrollment losses to occur.

2. On December 29, 2022, President Biden signed into law the Consolidated Appropriations Act of 2023. Before March 31, 2023, as a condition of receiving the 6.2 percentage point increase to the federal medical assistance percentage (FMAP) rate provided under the Families First Coronavirus Response Act (FFCRA) of 2020, states were prohibited from terminating or reducing benefits for most Medicaid enrollees during the COVID-19 public health emergency (PHE). This was known as the continuous coverage requirement.

   The omnibus legislation made several key changes to the existing parameters, including the timing for unwinding of the continuous coverage requirement, which was set to take effect on April 1, 2023. The Consolidated Appropriations Act amended FFCRA section 6008 to change the end date for continuous coverage from the end of whatever month in which the PHE ended, to March 31, 2023. This change provided states with approximately 100 days to make their final preparations for the start of unwinding on April 1, 2023. States began the processing of their pending redeterminations on April 1 and were expressly authorized to take up to 12 months to initiate redeterminations. California's Medi-Cal program re-started eligibility redeterminations in June 2023, and in the month of July 2023 individuals began transitioning from Medi-Cal to Covered California. During the first three months of the Medi-Cal unwind period, transitions from Medi-Cal to Covered California were lower than expected due to administrative start-up challenges. In addition, federal waivers also delayed some redeterminations, which slowed the transitions out of Medi-Cal. It is expected that Medi-Cal unwind period may extend beyond the original June 2024 end date. This may result in elevated enrollments into Covered California through the Medi-Cal translation process into December 2024.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Statements of Net Position
As of June 30, 2023 and 2022

	2023	2022
Assets and Deferred Outflows of Resources		
Current assets:		
Cash	$ 92,871,006	$ 67,399,920
Cash equivalents	474,300,000	442,855,000
Receivables:		
Grant receivable	-	1,107,393
Enrollment fees (net of allowance for cancelled enrollments)	33,806,616	32,804,254
Other receivables	4,187,777	1,193,004
Total receivables	37,994,393	35,104,651
Other current assets	5,438,251	7,136,691
Total current assets	610,603,650	552,496,262
Noncurrent assets:		
Depreciable capital assets	457,616,757	434,524,053
Less accumulated depreciation	(356,630,475)	(319,439,877)
Right of Use Assets (lease assets)	29,328,001	31,505,683
Less accumulated amortization	(10,506,556)	(5,810,001)
Right of Use Assets (SBITA assets)	8,282,862	-
Less accumulated amortization	(3,496,292)	-
Capital assets, net	124,594,297	140,779,858
Total assets	735,197,947	693,276,120
Deferred Outflows of Resources:		
Deferred outflows of resources - pension	82,381,107	41,077,414
Deferred outflows of resources - OPEB	45,435,000	41,453,000
Total deferred outflows of resources	127,816,107	82,530,414
Total assets and deferred outflows of resources	$ 863,014,054	$ 775,806,534

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Statements of Net Position (Continued)
As of June 30, 2023 and 2022

	2023	2022
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable	$ 70,806,963	$ 64,593,750
Accrued liabilities	1,181,810	683,372
Unearned revenue	2,130,755	1,837,852
SB84 loan payable to State	3,030,000	2,915,000
Compensated absences	11,568,022	12,119,233
Lease liability (Right of Use) - current portion	5,376,553	5,829,709
SBITA liability (Right of Use) - current portion	2,323,593	-
Total current liabilities	96,417,696	87,978,916
Noncurrent liabilities:		
Compensated absences	7,304,076	7,655,899
Other liabilities	578,470	175,392
SB84 loan payable to State	1,049,745	4,029,113
Net other postemployment benefits liability	279,595,000	379,189,000
Net pension liability	235,140,336	133,973,158
Lease liability (Right of Use) - noncurrent portion	14,338,496	20,793,156
SBITA liability (Right of Use) - noncurrent portion	1,368,878	-
Total noncurrent liabilities	539,375,001	545,815,718
Total liabilities	635,792,697	633,794,634
Deferred Inflows of Resources:		
Deferred inflows of resources - pension	5,325,536	56,791,225
Deferred inflows of resources - OPEB	96,932,000	67,155,000
Total deferred inflows of resources	102,257,536	123,946,225
Total liabilities and deferred inflows of resources	738,050,233	757,740,859
Net Position		
Net investment in capital assets	101,186,777	114,156,993
Unrestricted (deficit)	23,777,044	(96,091,317)
Total net position	$ 124,963,821	$ 18,065,676

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2023 and 2022

	2023	2022
Operating revenues:		
Enrollment fees-individual	$ 387,632,996	$ 379,760,436
Enrollment fees-CCSB	29,707,168	27,596,646
Total operating revenues	417,340,164	407,357,082
Operating expenses:		
Salaries, wages, benefits	93,429,373	151,564,990
Operating expenses and equipment	39,208,732	36,630,395
Professional services	140,158,801	142,803,067
Facilities operations	2,435,236	6,413,873
Depreciation expense	37,768,197	36,365,414
Amortization expense	9,076,588	5,810,001
Total operating expenses	322,076,927	379,587,739
Operating income	95,263,237	27,769,342
Nonoperating revenues (expenses):		
Federal grants	-	1,107,393
Interest income	10,372,809	1,444,650
Other income	254,899	520,192
Loss on disposal of assets	(57,434)	(159,323)
Total nonoperating revenues (expenses)	10,570,274	2,912,912
Change in net position	105,833,510	30,682,254
Total net position – beginning of year, as previously stated	18,065,676	(12,616,578)
Cumulative effect of accounting change (Note 1 (n))	1,064,635	-
Total net position - beginning of year, as restated	19,130,311	(12,616,578)
Total net position – end of year	$ 124,963,821	$ 18,065,676

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Receipts from enrollment fees	$ 416,538,928	$ 404,772,590
Payments to employees and for employee benefits	(159,235,173)	(154,410,268)
Payments to suppliers	(182,198,488)	(195,468,699)
Net cash provided by operating activities	75,105,267	54,893,623
Cash flows from noncapital financing activities:		
Repayment of SB 84 loan payable to State	(2,864,368)	(6,376,247)
Federal grants	1,107,393	-
Other income	166,836	472,736
Net cash used in noncapital financing activities	(1,590,139)	(5,903,511)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(15,017,286)	(12,654,473)
Lease principal payments	(5,525,811)	(5,636,069)
Payments towards the right to SBITA assets	(3,525,757)	-
Net cash used in capital and related financing activities	(24,068,854)	(18,290,541)
Cash flows from investing activities:		
Interest income	7,469,812	975,766
Net cash provided by investing activities	7,469,812	975,766
Net increase in cash and cash equivalents	56,916,086	31,675,336
Cash and cash equivalents – beginning of year	510,254,920	478,579,584
Cash and cash equivalents – end of year	$ 567,171,006	$ 510,254,920
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 95,263,237	$ 27,769,342
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	46,844,785	42,175,415
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,094,139)	(3,290,309)
(Increase) decrease in other assets	1,698,440	(1,141,293)
Changes in pension obligations	8,397,796	(16,902,721)
Changes in OPEB obligations	(73,799,000)	14,260,000
Increase (decrease) in accounts payable	(2,497,239)	(8,204,130)
Increase (decrease) in accrued liabilities	498,439	14,742
Increase (decrease) in unearned revenue	292,903	705,818
Increase (decrease) in compensated absences	(903,034)	(217,299)
Increase (decrease) in other liabilities	403,079	(275,941)
Net cash provided by operating activities	$ 75,105,267	$ 54,893,623
Supplemental disclosure of non-cash activities:		
Carrying value of items disposed	$ 57,434	$ 159,323
Capital asset purchases included in accounts payable	8,710,452	4,186,303
Acquisition of right to use lease assets	-	965,559
Acquisition of right to use SBITA assets	5,346,928	-

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

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

Covered California is an independent public entity not affiliated with a state agency or department; however, it is considered a related organization of the State. Covered California's operations are primarily funded through a participation fee charged to qualified carriers.

(b) Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of related cash flows.

(c) Revenue Recognition

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

Covered California's participation fee is assessed on gross premiums. The carriers pay the participation fee to Covered California pursuant to a contractual agreement. The participation fee is applicable to both the medical and dental enrollment. The individual market participation fee was 3.25% of the premium due by each enrollee in plan years 2022 and 2023. The CCSB participation fee was 5.20% of the premium due by each enrollee in plan years 2022 and 2023.

Covered California recognizes revenue related to the CCSB program on a net basis in accordance with FASB 2014-09, Topic 606-Revenue from Contracts with Customers. The CCSB program includes a contractual relationship between Covered California and participating carriers. The carriers have agreed that Covered California will facilitate enrollment on behalf of carriers through the CCSB program on the exchange. Covered California collects small employer group premiums and distributes commissions to agents and general agents, retains a participation fee, and passes the remaining monies to carriers for health coverage.

Since Covered California arranges for the provision of healthcare coverage by carriers, it participates as an agent to the transaction. The carriers that provide the service, healthcare coverage, are the principal in the transaction. When Covered California completes the enrollment of individuals into CCSB participating carriers, it recognizes revenue in the amount of the participation fee. Though immaterial, Covered California also recognizes agent fee revenue when Employers are enrolled without the assistance of a broker or agent. Effectuated enrollment is recognized by healthcare premium payment received by the contractually required due date.

Individual market revenues are recognized when billed by Covered California. Covered California does not collect individual market premiums. Enrollees pay carriers directly for healthcare coverage and Covered California bills qualified carriers monthly for the contractually agreed participation fee.

All revenues received that are not part of the ongoing operations, such as interest income or federal grants, are classified as nonoperating revenues.

(d) Cash and Cash Equivalents

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

(e) Receivables

Receivables represent the following at June 30, 2023 and 2022, respectively: amounts owed from health insurance carriers for participation fees for the individual market of \$33.8 million and \$32.8 million, abatements of \$0.5 million and \$0.4 million, and amounts due from the SMIF of \$3.6 million and \$0.8 million. The \$1.1 million of federal grants receivable due from CMS as of June 30, 2022 was collected in fiscal year 2022-23.

(f) Capital Assets

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, Covered California has recorded internally generated computer software that went live on October 1, 2013. Intangible assets are considered internally generated if they are created or produced by Covered California or an entity contracted by Covered California or if they are acquired from a third party but require more than a minimal incremental effort on the part of Covered California to begin to achieve their expected level of service capacity. The preliminary project stage was completed in June 2012.

Application development costs incurred during the fiscal year 2022-23 were $23.7 million and during fiscal year 2021-22 were $16.5 million. Depreciation of the intangible assets began on October 1, 2013, and totaled $35.9 million and $34.1 million for fiscal years 2022-23 and 2021-22, respectively.

(g) Accounts Payable

Accounts payable represents amounts owed by Covered California that are due to carriers, agents, vendors, employees, and to other parties. The accounts payable totals were $70.8 million at June 30, 2023, and $64.5 million for at June 30, 2022. These amounts include outstanding CCSB passthrough payables.

(h) Compensated Absences Payable

The financial statements report both the current and noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued when incurred.

(i) Pensions

All Covered California civil employees participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's Annual Comprehensive Financial Report as a fiduciary component unit. The portion of the present value of projected benefit payments to be provided to civil service employees attributable to past period of service less Covered California's fiduciary net position is recorded as a liability. Covered California is using the measurement dates as of June 30, 2022 and 2021 for the reporting dates as of June 30, 2023 and 2022, respectively.

(j) Other Postemployment Benefits (OPEB)

Covered California has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 requires Covered California to report its proportionate share of the net OPEB liability on its Statement of Net Position. It also requires Covered California to record its proportionate share of OPEB expenses in its Statement of Revenues, Expenses, and Changes in Net Position.

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

Deferred Outflows of Resources

Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. Deferred outflows of resources are presented separately after Total Assets in the Statement of Net Position.

Deferred outflows of resources consist of the following transactions:

- Net Pension Liability: Increases in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred outflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and increases in the net pension liability are all recognized in pension expense over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on pension plan investments exceed actual earnings, with the net difference amortized to pension expense over a five-year period beginning in the current reporting period. Employer contributions made subsequent to the measurement date are reported as deferred outflows of resources related to pension and reduce net pension liability in the following year.

- Net Other Postemployment Benefits Liability: Increases in net OPEB liability that are not recognized in OPEB expense for the reporting period are reported as deferred outflows of resources related to OPEB. Differences between expected and actual experience regarding economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total OPEB contribution amounts, are all recognized as OPEB expense over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on OPEB plan investments exceed actual earning, with the net difference amortized to OPEB expenses over a five-year period beginning in the current reporting period. Employer contributions made subsequent to the measurement date are reported as deferred outflows of resources related to OPEB and reduce net OPEB liability in the following year.

Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of assets that are applicable to future reporting periods. Deferred inflows of resources are presented separately after Total Liabilities in the Statement of Net Position.

Covered California's deferred inflows of resources consist of the following transactions:

Net Pension Liability: Reductions in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred inflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine pension liability: and decreases in Covered California's proportionate share of net pension liability are all recognized against pension expense over the average of the expected remaining service lives of participating employees. A deferred inflow of resources is also reported when actual earnings on pension plan investments exceed projected earnings, with the net difference amortized against pension expense over a five-year period beginning in the current reporting period.

- Net Other Postemployment Benefits Liability: Reductions in net OPEB liability that are not recognized in OPEB expense for the reporting period are reported as deferred inflows of resources related to OPEB. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total OPEB liability; and differences between the actual and proportionate share of OPEB contribution amounts, are all recognized against OPEB expense over the average of the expected remaining service lives of participating employees. A deferred inflow of resources is also reported when actual earning on OPEB plan investments exceed projected earning, with the net difference amortized against OPEB expense over a five-year period beginning in the current reporting period.

(l) Net Position

The financial statements include the following categories of net position:

Net investments in capital assets represents capital assets, net of accumulated depreciation, reduced by an outstanding debt attributed to the acquisition, construction, or improvement of those assets.

Unrestricted net position is the residual amount of the net position (deficit) not included in the net investment in capital assets or the restricted net position.

(m) Use of Estimates

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

(n) Effect of New GASB Pronouncements

GASB Statement No. 96

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued in May 2020. This statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs). The guidance requires the recognition of a right-to-use subscription asset and a corresponding subscription liability for contracts that convey control of the right-to-use another party's information technology software alone or in conjunction with tangible capital assets for a period of time in an exchange or exchange-like transaction.

The requirements of this statement are effective with fiscal years beginning after June 15, 2022. Covered California has implemented this standard for the fiscal year ended June 30, 2023. As described in notes 3 and 5, Covered California recognized the right-to-use asset and the associated SBITA liability for 34 Subscription Based Information Technology Arrangements. The impact of the restatements to net position for June 30, 2023 was $1,064,635 (Right of Use Asset $2,935,935 less SBITA liability $1,871,300).

The beginning balance for June 30, 2022 was not restated as it is not practicable and amounts were not material.

GASB Statement No. 87

In June 2017, GASB issued GASB Statement No. 87, Leases. The objective of the statement is to improve the consistency of accounting and reporting leases by requiring recognition of certain lease assets and liabilities for leases. GASB 87 creates a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying nonfinancial asset. Covered California has implemented this standard for the fiscal year ended June 30, 2022 and all references have been updated accordingly. As described in Notes 3 and 4, upon implementation of the standard, Covered California recognized and restated the right to use asset and associated lease liability related to five buildings. The impact of the restatements to net position was zero (right to use asset $31.3 million less lease liability $31.3 million).

(o) Future GASB Pronouncements

GASB Statement No. 100

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, was issued in June 2022. This statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement are effective with fiscal years beginning after June 15, 2023. Covered California's management is currently evaluating the impacts of this statement.

GASB Statement No. 101

GASB Statement No. 101, *Compensated Absences*, was issued in June 2022, and is effective for fiscal years beginning after December 15, 2023. This statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments will no longer be required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The implementation of this pronouncement will likely result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. This model will also result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. Covered California's management is evaluating the full impact of the amendment on its financial reports.

GASB Statement No. 102

GASB Statement No. 102, *Certain Risk Disclosures*, was issued December 2023, and is effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. This statement defines risks for state and local governments and requires them to disclose information about these risks in their financial statements. The focus is on concentrations (lack of diversity in resources) and constraints (limitations on governments) that could hurt a government's ability to provide services or meet financial obligations.

Specifically, governments must assess if a concentration or constraint creates a risk of substantial impact within a year of issuing financial statements. If such a risk is identified, the government must disclose details about the risk, including potential events that could cause problems and what actions are being taken to mitigate the risk. This disclosure helps users of financial statements understand the government's financial health.

(2) Cash and Cash Equivalents

Cash and cash equivalents are held as cash on hand in pools and managed by the State Treasurer. Interest income earned on outstanding cash balances is allocated among pool participants based on average daily cash balances.

	2023	2022
Cash in State Treasury	$92,871,006	$67,399,920
Surplus Money Investment Fund	474,300,000	442,855,000
Total	$567,171,006	$510,254,920

As of June 30, 2023 and 2022, the carrying value of deposits in the SMIF represents the fair value. The SMIF consists of the available cash of all special funds of the State which do not have investment authority of their own. Cash balances in excess of needs in any of these participating funds are invested by the State Treasurer. The Pooled Money Investment Board (PMIB) provides regulatory oversight over the State Treasurer's pooled investment program and is responsible for determining whether any cash balances of the participating funds are in excess of current needs and available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. The PMIB is composed of the State Treasurer, as chairman; the State Controller; and the Director of Finance.

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

On June 30, 2023 and 2022, the allocation of the deposits held by Covered California in the Surplus Money Investment Fund (SMIF), of which Covered California's estimated share was 0.265889 percent and 0.188875 percent, was estimated as follows:

	2023	2022
U.S. Treasury Securities	$ 112,527,284,000	$ 159,491,762,000
Federal Agency Debt	35,897,492,312	42,083,898,000
Supranational Debentures	2,922,770,688	2,211,833,000
Bank Notes	200,000,000	100,000,000
Certificates of Deposit	13,200,000,000	13,285,000,000
Commercial Paper	7,730,448,000	11,523,629,000
Bonds	463,859,000	492,675,000
Time Deposits	5,082,000,000	4,453,000,000
AB 55 and General Fund Loans	358,954,000	828,153,000
	$ 178,382,808,000	$ 234,469,950,000

The value of the deposits in the State Treasurer's pooled investment program, including the SMIF, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2023 and 2022, this difference was immaterial to the valuation of the deposits held by Covered California in the SMIF.

Covered California's share in the interest earnings of the PMIA is based on its ratio of dollar-day contributions to the total dollar-day investments of the PMIA. The overall return on investment for the PMIA was 2.17 percent for the year ended June 30, 2023 and 0.0371 percent for the year ended June 30, 2022.

On June 30, 2023 and 2022, the weighted average maturity of PMIA investments was approximately 260 days and 311 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from the evaluation date to stated maturity. Neither SMIF nor PMIA are rated by credit rating agencies. Additional disclosures regarding investment risks, interest rate risk, credit risk, custodial credit risk and concentration of credit risk, are presented in the financial statements of the State of California for the year ended June 30, 2023 and June 30, 2022.

(3) Capital Assets

Changes in capital assets for the year ended June 30, 2023 are as follows:

	Balance July 1, 2022 (restated)[1]	Increases	Decreases	Balance June 30, 2023
Depreciable capital assets:				
Internally developed software	$ 349,324,659	$ 23,727,738	$ -	$ 373,052,397
Hardware	23,392,012	-	-	23,392,012
Licenses and purchased software	42,074,654	-	-	42,074,654
Total depreciable assets development costs	414,791,325	23,727,738	-	438,519,063
Office furniture and equipment	10,922,179	-	(155,620)	10,766,559
Leasehold improvements	8,810,549	-	(479,414)	8,331,135
Total depreciable capital assets	434,524,053	23,727,738	(635,034)	457,616,757
Less accumulated depreciation:				
Internally generated intangible asset development costs	(306,051,154)	(35,897,745)	-	(341,948,901)
Office furniture and equipment	(8,777,066)	(949,202)	144,296	(9,581,972)
Leasehold improvements	(4,611,656)	(921,250)	433,304	(5,099,602)
Total accumulated depreciation	(319,439,876)	(37,768,197)	577,600	(356,630,475)
Total capital assets, being depreciated, net	115,084,177	(14,040,459)	(57,434)	100,986,282
Right of use assets (lease assets), amortized (Note 4):				
Right of use assets	31,505,683	-	(2,177,682)	29,328,001
Less accumulated amortization	(5,810,001)	(5,580,296)	883,740	(10,506,556)
Total right of use assets, amortized, net	25,695,682	(5,580,296)	(1,293,942)	18,821,445
Right of use assets (SBITA), amortized (Note 5):				
Right of use assets	2,935,935	5,346,928	-	8,282,863
Less accumulated amortization	-	(3,496,292)	-	(3,496,292)
Total right of use assets, amortized, net	2,935,935	1,850,636	-	4,786,571
Total capital assets, net	$ 143,715,794	$ (17,770,119)	$ (1,351,376)	$ 124,594,298

[1] As of July 1, 2022 Covered California restated the capital assets due to the implementation of GASB 96.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

Changes in capital assets for the year ended June 30, 2022 are as follows:

	Balance July 1, 2021 (restated)[1]	Increases	Decreases	Balance June 30, 2022
Depreciable capital assets:				
Internally developed software	$ 332,858,929	$ 16,465,730	$ -	$ 349,324,659
Hardware	23,392,012	-	-	23,392,012
Licenses and purchased software	42,074,654	-	-	42,074,654
Total depreciable assets development costs	398,325,595	16,465,730	-	414,791,325
Office furniture and equipment	11,410,992	375,046	(863,860)	10,922,178
Leasehold improvements	9,138,230	-	(327,681)	8,810,549
Total depreciable capital assets	418,874,817	16,840,776	(1,191,541)	434,524,052
Less accumulated depreciation:				
Internally generated intangible assets-development costs	(271,948,525)	(34,102,630)	-	(306,051,155)
Office furniture and equipment	(8,409,809)	(1,147,721)	780,464	(8,777,066)
Leasehold improvements	(3,748,346)	(1,115,063)	251,753	(4,611,656)
Total accumulated depreciation	(284,106,680)	(36,365,414)	1,032,217	(319,439,877)
Total depreciable capital assets, net	134,768,137	(19,524,638)	(159,323)	115,084,176
Right of use assets (lease assets), amortized (Note 4):				
Right of use assets	31,293,374	965,559	(753,250)	31,505,683
Total right of use assets	31,293,374	965,559	(753,250)	31,505,683
Less accumulated amortization for:				
Right of use assets	-	(5,810,001)	-	(5,810,001)
Total accumulated amortization	-	(5,810,001)	-	(5,810,001)
Total right of use assets, amortized, net	31,293,374	(4,844,442)	(753,250)	25,695,682
Total capital assets, net	$ 166,061,511	$ (24,369,080)	$ (912,573)	$ 140,779,858

[1]With the implementation of GASB 87, the beginning balance as of June 30, 2021, was restated by an increase of $31,293,374.

(4) Leases

Prior to GASB 87 guidance, governments distinguished between operating and capital leases. Beginning in fiscal year 2021-22, there is no longer a distinction between operating and capital leases. GASB 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases.

Covered California recognizes a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

Covered California will reduce the lease liability as payments are made and recognize an outflow of resources (e.g., expense) for interest on the liability. Covered California amortizes the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Covered California has five building leases that were recognized as intangible assets and liabilities. These included:

- Building lease 1—1601 Exposition Blvd, Sacramento, CA, 95815
- Building lease 2—247 E. Nees Avenue, Fresno, CA, 93720
- Building lease 3—1610 Arden Way, Sacramento, CA, 95815 – Expired 4/30/23
- Building lease 4 —7677 Oakport Steet, Suite 800, Oakland, CA, 94621
- Building lease 5—1601 Response Road, Sacramento, CA, 95815 – Terminated 8/31/22

During FY 2022-23, two capital leases were eliminated. Building Lease 3—1610 Arden Way, Sacramento, CA was not renewed and expired. In addition, Building Lease 5—1601 Response Road, Sacramento, CA was terminated. The termination of Building Lease 5 resulted in the elimination of $1,382,005 in liabilities, $303,898 of which were classified as current liabilities and $1,078,107 classified as non-current liabilities.

Lease Liability Beginning Balance	$	26,622,865
Reductions		(5,525,811)
Current Portion of Terminated Lease Liability		(303,898)
Non-Current Portion of Terminated Lease Liability		(1,078,107)
Lease Liability Ending Balance	$	19,715,049

Table of Lease Terms, Conditions, and Values as of June 30, 2023

Lease Factors	**Building Lease 1**	**Building Lease 2**	**Building Lease 3**	**Building Lease 4**	**Building Lease 5**
Term	07/01/2020-06/30/2025	04/01/2020-5/30/2030	02/17/2020-4/30/2023	03/1/2022-02/29/2028	05/01/2018-08/31/2022
Asset as of 6/30/23	$7,073,312	$10,997,143	$0	$750,991	$0
Asset Amortization Method	Straight line	Straight line	Straight line	Straight line	Straight line
Liability as of 6/30/23	$7,443,178	$11,504,371	$0	$767,500	$0
Liability Discount Rate	0.20%	0.90%	0.20%	0.90%	0.20
Direct Pmts. At Inception	$14,554,039	$14,452,188	$488,824	$965,559	$1,798,323
Asset Useful Life	48 Months	106 Months	22 Months	72 Months	58 Months

Lease Factors	**Building Lease 1**	**Building Lease 2**	**Building Lease 3**	**Building Lease 4**	**Building Lease 5**
Contract Length	48 Months	106 Months	22 Months	72 Months	58 Months
Amortization	48 Months	106 Months	22 Months	72 Months	58 Months

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

Table of Lease Terms, Conditions, and Values as of June 30, 2022

Lease Factors	Building Lease 1	Building Lease 2	Building Lease 3	Building Lease 4	Building Lease 5
Term	07/01/2020-06/30/2025	04/01/2020-5/30/2030	02/17/2020-12/31/2022	03/1/2022-02/29/2028	05/01/2018-04/30/2026
Asset as of 6/30/22	$10,915,530	$12,816,091	$222,193	$911,917	$1,426,256
Asset Amortization Method	Straight line	Straight line	Straight line	Straight line	Straight line
Liability as of 6/30/22	$11,037,644	$13,000,660	$225,508	$916,590	$1,442,464
Liability Discount Rate	0.20%	0.90%	0.20%	0.90%	0.20
Direct Pmts. At Inception	$14,554,039	$14,452,188	$488,824	$965,559	$1,798,323
Asset Useful Life	48 Months	106 Months	22 Months	72 Months	58 Months

Lease Factors	Building Lease 1	Building Lease 2	Building Lease 3	Building Lease 4	Building Lease 5
Contract Length	48 Months	106 Months	22 Months	72 Months	58 Months
Amortization	48 Months	106 Months	22 Months	72 Months	58 Months

The changes in the lease liability for the year ended June 30, 2023, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Building leases liability	$ 26,622,865	$ -	$ 6,907,815	$ 19,715,049	$ 5,376,553

The changes in the lease liability for the year ended June 30, 2022, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Building leases liability	$ 31,293,374	$ 965,560	$ 5,636,069	$ 26,622,865	$ 5,829,709

The future payments of lease principal and interest as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	$5,376,553	$114,999	$5,491,552
2025	5,511,825	92,080	5,603,905
2026	1,802,259	72,043	1,874,303
2027	1,857,035	55,598	1,912,633
2028	1,852,943	38,722	1,891,665
2029-2033	3,314,433	28,797	3,343,231
Total	$19,715,049	$402,239	$20,117,289

(5) Subscription-Based Information Technology Arrangement (SBITA)

GASB 96 is effective for fiscal years beginning after June 15, 2022. Implementation of the Statement requires assets and liabilities resulting from SBITAs to be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which GASB 96 is implemented.

Covered California recognizes a SBITA right-to-use liability and a SBITA right-to-use asset at the commencement of the subscription term, or at the date of the GASB 96 implementation of July 1, 2022 for existing SBITAs. The initial SBITA liability was measured at the present value of subscription payments expected to be made during the subscription term, and future subscription payments are discounted using an incremental borrowing rate. The SBITA asset is measured as the sum of the initial subscription liability amount, the payments made to the SBITA vendor before the commencement of the subscription term and the capitalizable implementation costs, less any incentives received at or before the commencement of the subscription term.

Covered California will reduce the SBITA liability as payments are made and recognize amortization of the discount on the subscription liability as an outflow of resources (e.g., interest expense) in future financial reporting periods. Covered California recognizes amortization of the subscription asset as an outflow of resources over the subscription term. The changes in the SBITA liability for the year ended June 30, 2023, are as follows:

	Beginning Balance[1]	Additions	Reductions	Ending Balance	Due Within One Year
SBITA liability	$ 1,871,300	$ 5,346,928	$ 3,525,757	$ 3,692,471	$ 2,323,593

[1] As of July 1, 2022 Covered California restated the SBITA liability due to the implementation of GASB 96.

The future payments of SBITA principal and interest as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	$ 2,323,593	$ 49,422	$ 2,373,015
2025	1,158,236	14,292	1,172,528
2026	100,099	4,901	105,000
2027	110,543	2,457	113,000
Total	$ 3,692,471	$ 71,072	$ 3,763,543

(6) Loan Payable to State of California

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

Balances to the interfund loan payable for the year ended June 30, 2022 and 2023 are as follows:

	Balance at July 1, 2022	Additions	Reductions	Balance at June 30, 2023
Loan payable SMIF (SB84)	$ 6,944,113	$ -	$ 2,864,368	$ 4,079,745

	Balance at July 1, 2021	Additions	Reductions	Balance at June 30, 2022
Loan payable SMIF (SB84)	$ 13,320,360	$ -	$ 6,376,247	$ 6,944,113

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

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

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

	Principal	Interest	Total
FY 2023-24	$ 3,030,000	$ 178,000	$ 3,208,000
FY 2024-25	1,049,745	230,000	1,279,745
Total	$ 4,079,745	$ 408,000	$ 4,487,745

(7) Retirement and Other Postemployment Benefits

(a) Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* (GASB 68), requires public employers to comply with accounting and financial reporting standards related to the recognition and calculation of pension obligations. Under GASB 68, employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement are required to record their portion of the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position.

Net pension liability is the plan's total pension liability based on the entry age normal actuarial cost method less the plan's fiduciary net position. This may be a net pension asset when the Plan's fiduciary net position exceeds its total pension liability.

Pension expense is the change in net pension liability from the previous reporting period to the current reporting period, less adjustments. This may be a negative expense (pension income), which should be reported as a credit in pension expense.

Deferred outflows of resources and deferred inflows of resources related to pensions are certain changes in total pension liability and fiduciary net position that are to be recognized in future pension expense.

GASB 68 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

	2023	**2022**
Valuation date (VD)	June 30, 2021	June 30, 2020
Measurement date (MD)	June 30, 2022	June 30, 2021
Measurement period (MP)	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021

Plan Description, Benefits Provided, and Employees Covered

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

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

Generally, full-time employees are eligible to participate as members of CalPERS and are eligible to retire at age 50 with at least five years of service. However, the Public Employees' Pension Reform Act, or PEPRA, which went into effect on January 1, 2013, changed the terms of the pension plan for state workers first hired after January 2013. PEPRA members become eligible to retire at age 52 with at least 5 years of service. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest 12 or 36 (depending on date of hire) consecutive months' average compensation. If members are not fully vested, the healthcare and dental contributions will be prorated based on the years of service.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through 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. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. For the Plan measurement periods ended June 30, 2022, the active employee contribution rate for State Miscellaneous was 29.22%, State Industrial 17.34%, State Safety 19.47%. For the Plan measurement periods ended June 30, 2021, the active employee contribution rate for State Miscellaneous was 29.37%, State Industrial 18.19%, State Safety 19.95%.

Any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

Discount Rate

CalPERS prepared the GASB 68 Accounting Valuation Reports (AVRs) for the State of California for the five plans (including the State Miscellaneous Plan) in which the State participates. For the June 30, 2022, measurement date, CalPERS utilized a discount rate of 6.90 percent, which includes the plans' administrative expenses. For the June 30, 2021, measurement date, CalPERS utilized a discount rate of 7.15 percent, which includes the plan's administrative expenses.

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

The State Controller's Office (SCO) used a calculated percentage based on Covered California's share of the pensionable compensation to the State's total pensionable compensation amounts for the State Miscellaneous Plan, to provide Covered California's proportionate share of net pension liability and related GASB 68 accounting elements. For the June 30, 2022, measurement period and June 30, 2021, measurement period Covered California's calculated percentage for all three subgroups were as follows:

Subgroup	Calculated Percentage **June 30, 2022** Measurement Period	Calculated Percentage **June 30, 2021** Measurement Period
Miscellaneous	0.621920%	0.601058%
State Safety	0.000060%	No Pensionable Wages
State Industrial	0.001350%	No Pensionable Wages

Covered California's net pension liability for its proportionate share of the State's net pension liability for the Miscellaneous sub-group was $133,973,158 at the start of the July 1, 2021 measurement period and $235,140,336 for the three sub-groups at the end of the measurement period, June 30, 2022, respectively. Covered California's share of the state's net pension liability for the Miscellaneous sub-groups was $202,261,884 at the start of the measurement period, July 1, 2020, and $133,973,158 at the end of the measurement period, June 30, 2021, respectively.

For the measurement periods, June 30, 2022 and 2021 (the measurement date), Covered California incurred a non-cash pension expense of $32,695,782 and $15,595,792, respectively.

As of the measurement date of June 30, 2022 and 2021, Covered California had deferred outflows and deferred inflows of resources related to pensions as follows:

	2022	2021
Deferred Outflows of Resources		
Pension Contributions Subsequent to Measurement Date	$ 30,219,987	$ 32,498,513
Difference Between Expected and Actual Experiences	3,717,999	8,578,901
Change in Assumptions	17,799,477	-
Net Difference In Projected and Actual Earnings on Pension Plan Investment	30,643,644	-
Total	**$ 82,381,107**	**$ 41,077,414**
Deferred Inflows of Resources		
Difference Between Expected and Actual Experiences	$ 5,325,536	$ 1
Change in Assumptions	-	201,949
Net Difference In Projected and Actual Earnings on Pension Plan Investment	-	56,589,275
Total	**$ 5,325,536**	**$ 56,791,225**

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

Measurement Period ended June 30:	Deferred Outflows/(Inflows) of Resources
2023	$11,286,705
2024	9,475,849
2025	6,354,170
2026	19,824,506
Total	**$ 46,941,231**

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liability as of the June 2022 measurement date was based on an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. The total pension liability as of June 2021 measurement date was based on an actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021, using standard update procedures. Unless noted, the calculations were based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Actuarial Cost for June 30, 2022 and Entry Age Normal for June 30, 2021.
Amortization Method/Period:	For both measurement dates, the 2018 CalPERS Actuarial Amortization policy specifies that all changes in liability due to plan amendments (other than golden handshakes which are amortized over 5 years), changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. Commencing with the 2019 valuation, all new gains or losses are tracked, and the net unamortized gain or loss is amortized over a fixed 20-year period with a 5-year ramp up at the beginning of the amortization period.
Asset Valuation Method:	For both measurement dates, Fair Value
Inflation:	For June 2022, 2.30% and 2.5% for June 2021.
Salary Increases:	For both measurement dates, varies by entry age and service.
Payroll Growth:	For June 2022, 2.80% and 2.75% for June 2021.
Investment Rate of Return:	For June 2022, 6.90% and 7.15% for June 2021.
Retirement Age:	For June 2022 measurement date, the probabilities of retirement are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. For June 2021 measurement date, the probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality Rate Table:	For June 2022 measurement date, the probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. For June 2021, the probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include generational mortality improvement using 80% of MP-2020 published by the Society of Actuaries for June 2022. For June 2021 measurement date, pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using Scale 90% of scale MP-2016 published by the Society of Actuaries.

Post Retirement Benefit Increase: For June 2022 measurement date, the lesser of contract cost of living adjustment (COLA) or 2.30 percent until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30 percent thereafter. For June 2021 measurement date, the lesser of contract cost of living adjustment (COLA) or 2.50 percent until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50 percent thereafter.

The Mortality Rate Table used was developed based on CalPERS specific data. For June 2022, the table includes generational mortality improvements using Society of Actuaries Scale 80% of scale MP-2020. For June 2021, the table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP-2016. For more details on the Mortality Rate Table for the June 2022 and June 2021 measurement dates, please refer to the November 2021 experience study report (based on CalPERS demographic data from 2001 to 2019), and to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015), respectively.

All other actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from 2001 to 2019, including updates to salary increase, mortality and retirement rates. All other actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study reports can be obtained at the CalPERS website under Forms and Publications.

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

In determining the long-term expected rate of return for June 30, 2022 measurement date, CalPERS's staff took into account both short-term and long-term market return expectations. Using historical returns of all 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. In determining the long-term expected rate of return for June 30, 2021 measurement date, CalPERS's staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rate of return by asset class for June 30, 2022 measurement date. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation used to measure the total pension liability. An expected inflation rate of 2.30 percent was used for real return.

Asset Class	Assumed Asset Allocation	Real Return
Global Equity – Cap-weighted	30.00%	4.54%
Global Equity – Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investments Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	(5.00)%	(0.59)%
	100.00%	

The table below reflects long-term expected real rate of return by asset class for June 30, 2021 measurement date. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation used to measure the total pension liability. An expected inflation rate of 2.00 percent was used for real return years 1-10. For real return years 11+, an inflation rate of 2.92 percent was used.

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

Changes in Assumption

In 2021, there were no changes in assumptions. In 2022, the accounting discount rate was reduced from 7.15 percent to 6.90 percent. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The accounting discount rate was 7.15 percent for measurement dates 2017 through 2021.

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

The following presents the net pension liability of Covered California as of June 30, 2022, calculated using the discount rate of 6.90 percent, as well as what the pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90 percent) or 1 percentage-point higher (7.90 percent) than the current rate:

	Discount Rate -1% (5.90%)	Current Discount Rate (6.90%)	Discount Rate + 1% (7.90%)
Miscellaneous Plan	$338,354,701	$235,140,336	$148,972,236

The following presents the net pension liability of Covered California as of June 30, 2021, calculated using the discount rate of 7.15 percent, as well as what the pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan	$225,752,385	$133,973,158	$57,032,756

Pension Plan Fiduciary Net Position

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

(b) Other Postemployment Benefits

Covered California adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) during the 2017-18 fiscal year. GASB 75 requires that the reported liability and asset information be determined based on specific valuation and measurement dates. For this report, the following valuation and measurement dates were used:

	2023	**2022**
Valuation date (VD)	June 30, 2022	June 30, 2021
Measurement date (MD)	June 30, 2022	June 30, 2021
Measurement period (MP)	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021

Plan Description, Benefits Provided, and Employees Covered

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

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

Employer contributions for health premiums during fiscal year 2022-23 and 2021-2022 maintained the 100/90 percent contribution formula established by Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of the weighted average excess of the two-party or family premium over the single premium for the health benefits of each of the retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The monthly contribution maximums for 2022-23 and 2021-22, respectively, were $816 and $798 for a single enrollee, $1,548 and $1,519 for an enrollee and one dependent, and $1,983 and $1,937 for an enrollee and two or more dependents. Dental premiums vary by plan and number of dependents. The contribution formulas are subject to approval and amendment by the state legislature. The actual amount of the contribution varies by employee type. If members are not fully vested, the healthcare and dental contributions will be prorated based on the years of service.

Contributions

Covered California paid approximately $16,888,000 for postretirement health and dental benefits for retired members and prefunding for the year ended June 30, 2023, and $15,966,000 for the year ended June 30, 2022. For the measurement date ended June 30, 2022, and 2021, respectively, Covered California's cash contributions were approximately $15,966,000 and $14,100,507 in total payments, which were recognized as a reduction to the net OPEB liability.

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

Covered California reported a liability of $279,595,000 for its proportionate share of the OPEB Plan net OPEB liability in accordance with the parameters of GASB 75 for the year ended June 30, 2023, and $379,189,000 for the year ended June 30, 2022. The State Controller's Office (SCO) used the total amount of Covered California OPEB contributions as a proportion of the State's total contributions for each bargaining unit or valuation group, to provide Covered California's net OPEB liability and related GASB 75 accounting elements. At June 30, 2023, Covered California's combined proportionate share, based on its attributable bargaining units or valuation groups' contributions for the measurement period June 30, 2021 (measurement date) was 0.950830%, and 0.817270% at June 30, 2022, for the measurement period June 30, 2021 (measurement date).

For the measurement periods, June 30, 2022, and 2021 (the measurement date), Covered California incurred a non-cash OPEB expense of $56,913,000 and $30,226,000, respectively.

As of the measurement date of June 30, 2022, and 2021, Covered California had deferred outflows and deferred inflows of resources related to OPEB as follows:

	2022	2021
Deferred Outflow of Resources		
OPEB Contributions Subsequent to Measurement Date	$ 16,888,000	$ 15,966,000
Difference Between Expected and Actual Experience	9,006,000	222,000
Change in Assumptions	17,724,000	25,265,000
Net Difference In Projected and Actual Earnings on OPEB Plan Investments	1,817,000	-
Total	**$ 45,435,000**	**$ 41,453,000**
Deferred Inflow of Resources		
Difference Between Expected and Actual Experience	$ 33,429,000	$ 49,245,000
Change in Assumptions	63,503,000	16,852,000
Net Difference In Projected and Actual Earnings on OPEB Plan Investments	-	1,058,000
Total	**$ 96,932,000**	**$ 67,155,000**

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

Measurement Period ended June 30:		**Deferred Outflows of Resources**
2023	$	(17,515)
2024		(13,449)
2025		(8,307)
2026		(8,387)
2027		(8,876)
Thereafter		(11,850)
Total	$	(68,384)

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

Actuarial Methods and Assumptions Used to Determine Total OPEB Liability

Covered California's net 2023 OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2022. Covered California's net 2022 OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2021.

The following actuarial methods and assumptions were used:

Valuation Date: For the 2023 report, June 30, 2022. For the 2022 report, June 30, 2021.

Measurement Date: For the 2023 report, June 30, 2022. For the 2022 report, June 30, 2021.

Actuarial Cost Method: For both periods, entry age normal cost

Actuarial Valuation Method: For both periods, market value of assets

Actuarial Assumptions:

Discount rate:	Blended rate for each valuation group, consisting of 6.00% when assets are available to pay benefits, otherwise the 20-year municipal bond G.O. bond AA index rate of 3.69% for June 30, 2022, and 1.92% for June 30, 2021.
Inflation:	For both periods, 2.30%.
Salary increases:	For both periods, vary by entry age and service
Investment rate of return:	For both periods, 6.00%.
Mortality rate:	For both periods, the probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2000 to 2019. Mortality rates include 15 years of projected mortality improvements using 80% of Scale MP-2020 published by the Society of Actuaries.
Pre-retirement turnover:	For both periods, the pre-retirement turnover information was derived from data collected during 2000 to 2019 per the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.
Healthcare trend rates:	The 2023 trend rates are based on actual premium increases for 2023. For 2024 and beyond an initial rate of 7.0% was used for Pre-Medicare per capita claim costs and premium and post-Medicare premium grading down to 4.5% in 2029, 4.5% from 2030-2037, and 4.25% on and after 2038. The Post-Medicare per capita cost trend rates were set at 7.21% for 2023, 8.06% in 2024, grading down to 4.65% in 2030 for PERS Gold and PERS Platinum and -2.17% for 2023, 7.93% in 2024 grading down to 4.63% in 2030, for HMO. The Post-Medicare per capita cost trend rates for all plans were set at 4.5% from 2031 to 2037, and 4.25% on and after 2038. The 2022 trend rates are based on actual premium increases for 2022. For 2023 and beyond an initial rate of 7.5% was used for Pre-Medicare per capita claim costs and premium and post-Medicare premium grading down to 4.5% in 2029, 4.5% from 2030-2037, and 4.25% on and after 2038. The Post-Medicare per capita cost trend rates were set at 4.96% for 2022, 8.30% in 2023, grading down

to 4.66% in 2030, for PERSCare and 5.10% for 2022, 8.42% in 2023 grading down to 4.68% in 2030 for PERS Choice and PERS Select. The Post-Medicare per capita cost trend for all plan is 4.50% from 2031 to 2037 and 4.25% on after 2038.

Retirement age: For both periods, the probabilities of retirement are based on the 2021 CalPERS Experience Study for the period from 2000 to 2019.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the 2022 and 2021 measurement periods are summarized in the following table.

Asset Class	**Current Target Allocation**	**Real Return Years 1-10**	**Real Return Years 11+**
Global Equity	49.00%	4.40%	4.50%
Fixed Income	23.00%	-1.00%	2.20%
Treasury Inflation-Protected Securities	5.00%	-1.80%	1.30%
Real Estate Investment Trusts (REITs)	20.00%	3.00%	3.90%
Commodities	3.00%	0.80%	1.20%
Total	100.00%		

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2022 and June 30, 2021 was 6.0 percent. The discount rate was based on a blended rate for each respective actuarial valuation group. The blended rates used to measure the June 30, 2022, total OPEB liability consists of the 20-year Municipal G.O. Bond AA Index rate of 3.69% as of June 30, 2022, as reported by Fidelity, when prefunding assets are not available to pay benefits, and 6.00% when prefunding assets are available to pay benefits. The blended rates used to measure the June 30, 2021, total OPEB liability consists of the 20-year Municipal G.O. Bond AA Index rate of 1.92% as of June 30, 2021, as reported by Fidelity, when prefunding assets are not available to pay benefits, and 6.00% when prefunding assets are available to pay benefits. The cash flow projections used to calculate the blended discount rates were developed assuming that prefunding agreements in which actuarially determined normal costs are shared between employees and the State will continue and that the required contributions will be made on time and as scheduled beginning in 2023 and thereafter. The actuarial valuations as of June 30, 2021 and June 30, 2022 include the impact of the temporary suspensions of employee contributions under the Personal Leave Program that was in effect during the fiscal years ended June 30, 2021 and June 30, 2022. The prefunding agreements are subject to collective bargaining and legislative approval. Detailed information on the blended discount rates by valuation group is available in the *State of California Retiree Health Benefits Program*

GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2021 and June 30, 2022, on the SCO website, at www.SCO.ca.gov.

Changes in Assumptions

For the period June 30, 2022 (measurement period) the following change was made: the GASB Statements No. 74 and 75 blended discount rate as of June 30, 2021, which ranged from 1.92 percent to 2.95 percent, to the blended discount rate as of June 30, 2022, which ranges from 3.69 percent to 4.24 percent. In the period ended June 30, 2021 (measurement period), the following changes were made: demographic assumptions were updated per the June 30, 2021 CalPERS Experience Study and Review of Actuarial Assumptions, the discount rate and long-term expected return on assets was changed from 6.75 percent to 6.00 percent, and the inflation rate assumption was changed from 2.25 percent to 2.30 percent.

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

The following represents the net OPEB liability of Covered California as of the measurement date ended June 30, 2022, calculated using the respective blended discount rate for each bargaining unit, as well as what the net OPEB liability would be if it were calculated using a rate that are 1 percentage-point lower or 1 percentage-point higher than the blended discount rate:

Blended Discount Rate -1%	Blended Discount Rate	Blended Discount Rate + 1%
$327,017,516	$279,595,000	$241,064,675

The following represents the net OPEB liability of Covered California as of the measurement date ended June 30, 2021, calculated using the respective blended discount rate for each bargaining unit, as well as what the net OPEB liability would be if it were calculated using a rate that are 1 percentage-point lower or 1 percentage-point higher than the blended discount rate:

Blended Discount Rate -1%	Blended Discount Rate	Blended Discount Rate + 1%
$448,847,415	$379,189,000	$323,232,732

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

The following presents the net OPEB liability of Covered California as of June 30, 2022, calculated using health care cost rates that are 1 percentage-point lower or 1 percentage-point higher than the current rate:

Health Cost Trend Rate -1%	Health Cost Trend Rate	Health Cost Trend Rate + 1%
$237,389,858	$279,595,000	$333,329,114

The following presents the net OPEB liability of Covered California as of June 30, 2021, calculated using health care cost rates that are 1 percentage-point lower or 1 percentage-point higher than the current rate:

Health Cost Trend Rate -1%	Health Cost Trend Rate	Health Cost Trend Rate + 1%
$317,354,802	$379,189,000	$459,325,749

OPEB Plan Fiduciary Net Position

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

(8) Risk Management

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

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

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Covered California's Proportionate
Share of the Net Pension Liability
Last 9 Years (2)

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

Fiscal Year	2015	2016	2017	2018	2019
Measurement Period	2014	2015	2016	2017	2018
Covered California's Proportion of the Net Pension Liability	0.224583%	0.428616%	0.500055%	0.481857%	0.517062%
Covered California's Proportionate Share of the Net Pension Liability	$ 53,473,665	$ 121,049,500	$ 165,589,315	$ 176,047,944	$ 162,432,133
Covered California's Covered Payroll	$ 22,502,642	$ 45,608,536	$ 55,957,084	$ 55,854,234	$ 63,362,515
Covered California's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	237.63%	265.41%	295.92%	315.19%	256.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.17%	70.68%	66.81%	66.42%	71.83%

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

Notes to Schedule:

Benefit Changes: The figures above generally include any liability impact that may have resulted from voluntary benefit changes that occurred on or before the Measurement Date. However, offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes) that occurred after the Valuation Date are not included in the figures above, unless the liability impact is deemed to be material by the plan actuary.

Changes of Assumptions: Effective with the June 30, 2021, valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15 percent to 6.90 percent. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The accounting discount rate was 7.15 percent. For measurement dates 2017 through 2021, 7.65 percent for measurement dates 2015 through 2016, and 7.5 percent for measurement date 2014.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Covered California's Proportionate
Share of the Net Pension Liability (Continued)
Last 9 Years [2]

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

Fiscal Year	2020	2021	2022	2023
Measurement Period	2019	2020	2021	2022
Covered California's Proportion of the Net Pension Liability	0.541209%	0.581853%	0.601058%	0.621918%
Covered California's Proportionate Share of the Net Pension Liability	$ 182,041,545	$ 202,261,884	$ 133,973,158	$ 235,140,336
Covered California's Covered Payroll	$ 69,890,529	$ 79,013,423	$ 77,593,021	$ 91,605,865
Covered California's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	260.47%	255.98%	172.66%	256.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.34%	71.51%	82.39%	71.63%

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Plan Contributions Pension
Last 9 Years [1]

SCHEDULE OF PLAN CONTRIBUTIONS PENSION

	2015	2016	2017	2018	2019
Actuarially Determined Contribution in Relation to the	$ 11,090,990	$ 14,066,553	$ 14,920,905	$ 35,345,764	$ 20,541,282
Actuarially Determined Contribution	(11,090,990)	(14,066,553)	(14,920,905)	(35,345,764)	(20,541,282)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 22,506,642	$ 45,608,536	$ 55,957,084	$ 55,854,234	$ 63,362,515
Contributions as a Percentage of Covered Payroll	49.28%	30.84%	26.66%	63.28%	32.42%

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

Notes to Schedule:

Valuation Date	June 30, 2020
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age actuarial cost method
Amortization method/period	Level percent of payroll
Asset valuation method	Fair value of assets
Inflation	2.50%
Payroll growth	2.75%
Investment rate of return (net of pension investment and administrative expenses; includes inflation)	7.00%
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997- 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period 1997- 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Plan Contributions Pension (Continued)
Last 9 Years [(1)]

SCHEDULE OF PLAN CONTRIBUTIONS PENSION (continued)

	2020	2021	2022	2023
Actuarially Determined Contribution	$24,348,721	$22,791,722	$32,498,513	$30,219,987
Contribution in Relation to the Actuarially Determined Contribution	(24,348,271)	(22,791,722)	(32,498,513)	(30,219,987)
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$0.00
Covered Payroll	$69,890,529	$79,013,423	$77,593,021	$91,605,865
Contributions as a Percentage of Covered-Employee Payroll	34.84%	28.85%	41.88%	32.99%

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Covered California's Proportionate Share of the Net OPEB Liability
Last 6 Years (1)

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

Fiscal Year	2018	2019	2020	2021	2022	2023
Measurement Period	2017	2018	2019	2020	2021	2022
Covered California's Proportion of the Net OPEB Liability	0.347280%	1.105186%	0.431673%	0.462595%	0.520965%	0.4495478%
Covered California's Proportionate Share of the Net OPEB Liability	$ 308,148,000	$ 326,760,000	$ 338,695,000	$ 365,112,000	$ 379,189,000	$ 279,595,000
Covered California's Covered Payroll	$ 55,854,234	$ 86,743,694	$ 98,343,086	$ 112,986,169	$ 113,444,926	$ 123,931,109
Covered California's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	551.70%	376.70%	344.40%	323.15%	334.25%	225.61%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.47%	1.53%	2.75%	5.23%

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

Notes to Schedule:

Benefit Changes: For 2022, 2021, 2020, 2019, and 2018 there were no changes to the benefit terms. As of January 1, 2022, the PERS Select, PERS Choice, and PERSCare healthcare plans were replaced with the PERS Platinum and PERS Gold healthcare plans.

Changes of Assumptions by Measurement Period: Demographic assumptions are based on the CalPERS Experience Study and Review of Assumptions which is updated every four years. 2022-2023 were based on the 2021 Study, the 2018-2021 were based on the 2017 Study. In 2018, the discount rate was decreased from 7.28% to 7.0%, and the inflation rate from 2.75% to 2.50%. In 2019, the discount rate decreased from 7.0% to 6.75%, and the inflation rate from 2.5% to 2.25%. There were no changes in 2020. The discount rate was changed to 6.0% in 2021, and the inflation rate was changed to 2.30%. There were no changes in 2022.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Contributions - OPEB
Last 6 Years (1)

SCHEDULE OF CONTRIBUTIONS – OPEB

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

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

Notes to Schedule:

Actuarial methods and assumptions used to set the actuarially determined contribution for Fiscal Year were from Actuarial Valuation dated June 2022.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry age normal cost, level percent of pay
Actuarial Valuation Method	Market value of assets
Inflation	2.30%
Payroll Growth	2.80%
Investment Rate of Return	6.00%
Healthcare Cost-Trend Rates	Trend rates are based on actual premium increases for 2023. For 2024 and beyond, an initial trend rate of 7.0% was used for Pre-Medicare per capita claim costs and premium, and post- Medicare premium grading down to 4.50% in 2029, 4.50% from 2030-2037, and 4.25% on after 2038. The Post-Medicare per capita cost trend rates were set at 7.21% for 2023, 8.06% in 2024, grading down to 4.65% in 2030 for PERS Gold and PERS Platinum, and -2.17% for 2023, 7.93% in 2024, grading down to 4.63% in 2030 for HMO. The Post-Medicare per capita cost trend for all plans were set at 4.50% from 2031 to 2037 and 4.25% on and after 2038.
Mortality	The probabilities of mortality are based on the 2021 CalPERS Experience Study from 2000 to 2019. Pre-retirement and post- retirement mortality rates include 15 years of projected mortality improvement using Scale 80% of scale MP-2020 published by the Society of Actuaries.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Contributions – OPEB (Continued)
Last 6 Years [(1)]

Schedule of Contributions - OPEB (continued)

	2021	2022	2023
Actuarially Determined Contribution	$ 14,100,000	$ 15,966,000	$ 16,888,000
Contribution in Relation to the Actuarily Determined Contributions	(14,100,000)	(15,966,000)	(16,888,000)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-employee payroll	$ 112,986,169	$ 113,444,926	$ 123,931,109
Contributions as a percentage of covered-employee payroll	12.48%	14.07%	13.63%