CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

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

Year Ended June 30, 2022

Certified
Public
Accountants

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
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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 year ended June 30, 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, 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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 and related ratios, the schedule of plan contributions related to pensions, the schedule of changes in the net OPEB liability and related ratios, and schedule of plan contributions related to OPEB, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 24, 2023, 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 24, 2023

The Management Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial condition, results of operations, and cash flows for the California Health Benefit Exchange (hereafter referred to as Covered California) for the fiscal year ending June 30, 2022. 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.

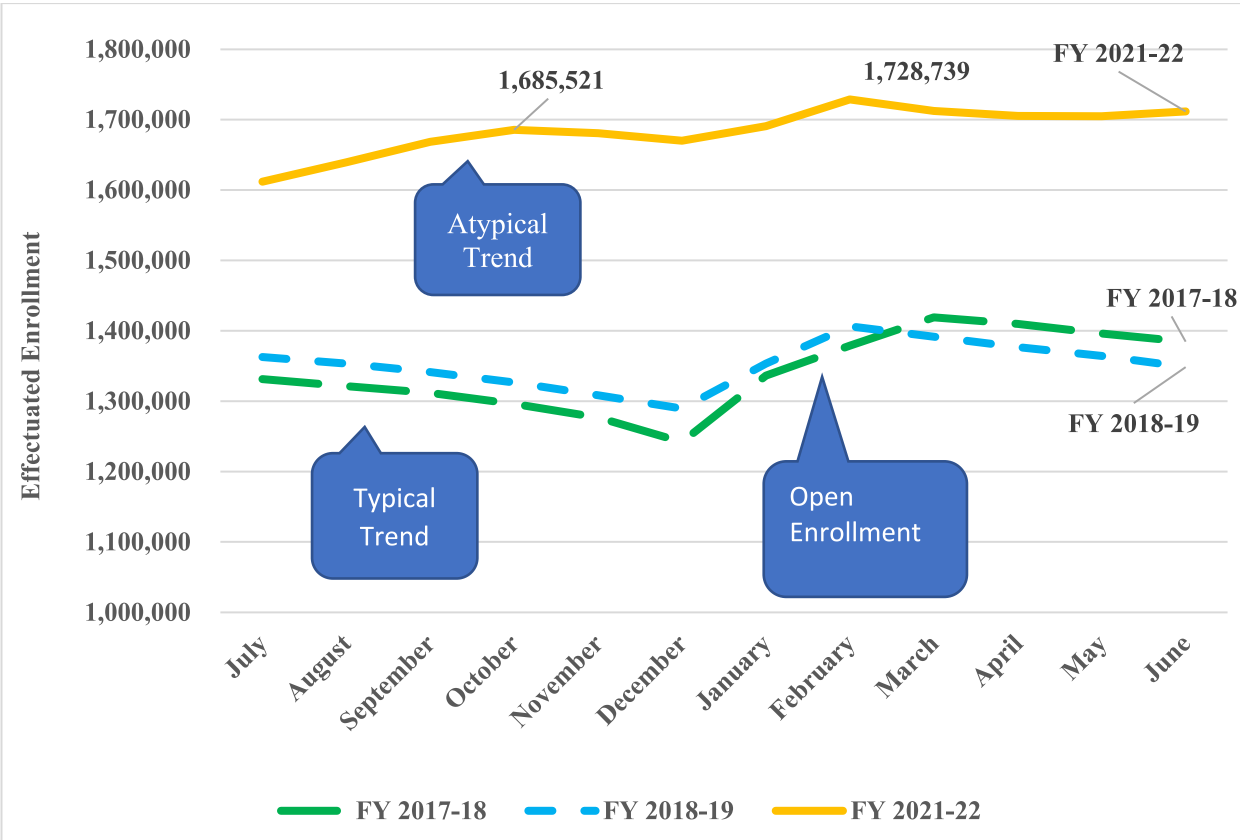
Established as an enterprise fund, Covered California receives no state general fund appropriation for operations. Covered California generates revenues to cover operating and capital expenditures from fees assessed on the monthly premiums paid by individuals enrolling into health plans through Covered California.

This report begins with a brief review of the unique events that affected Covered California's FY 2021-22 operations. While COVID-19 was becoming more manageable and the economy continued to recover, FY 2021-22 saw Covered California recognize record enrollment, encouraged by American Rescue Plan Act (ARPA) enhanced subsidies. Inflation rose to record highs, and the public health emergency (PHE) was extended throughout the FY. As the FY ended, Covered California faced uncertainty once again, as the extension of ARPA's enhanced subsidies remained undecided.

ARPA's Continued Impact on Enrollment

As FY 2021-22 commenced, Covered California continued enrolling individuals incentivized by the American Rescue Plan Act's (ARPA) enhanced subsidies. In May 2021, ARPA's enhanced premium tax credits (PTC) began to provide additional subsidy dollars that significantly lowered out-of-pocket costs for enrollees. In many cases, individuals were offered coverage that cost $1, and many paid $0 a month for health insurance coverage. ARPA also included 100 percent premium subsidies for COBRA coverage through September 2021. Those receiving unemployment insurance benefits in 2021 also paid only $1 per month for an Enhanced Silver 94 plan. Special enrollment periods were offered during the FY, and Covered California extensively marketed coverage options and extended affordability support throughout the state. During FY 2021-22, Covered California's enrollment trend followed an atypical pattern. Instead of recognizing the typical rise in enrollment from December through March, coinciding with the open enrollment period, followed by a continued decline through December, enrollment continued to rise through October 2021. It then leveled off and followed a slightly declining trend through December. This atypical trend reflected ARPA's impact, as individuals enrolled in response to dramatically lowered out-of-pocket healthcare coverage costs. Enrollment climbed to 1.7 million by the end of the FY, representing record enrollment for Covered California (**Figure 1**).

Figure 1: FY 2021-22 Covered California Individual Market Effectuated Enrollment Trend

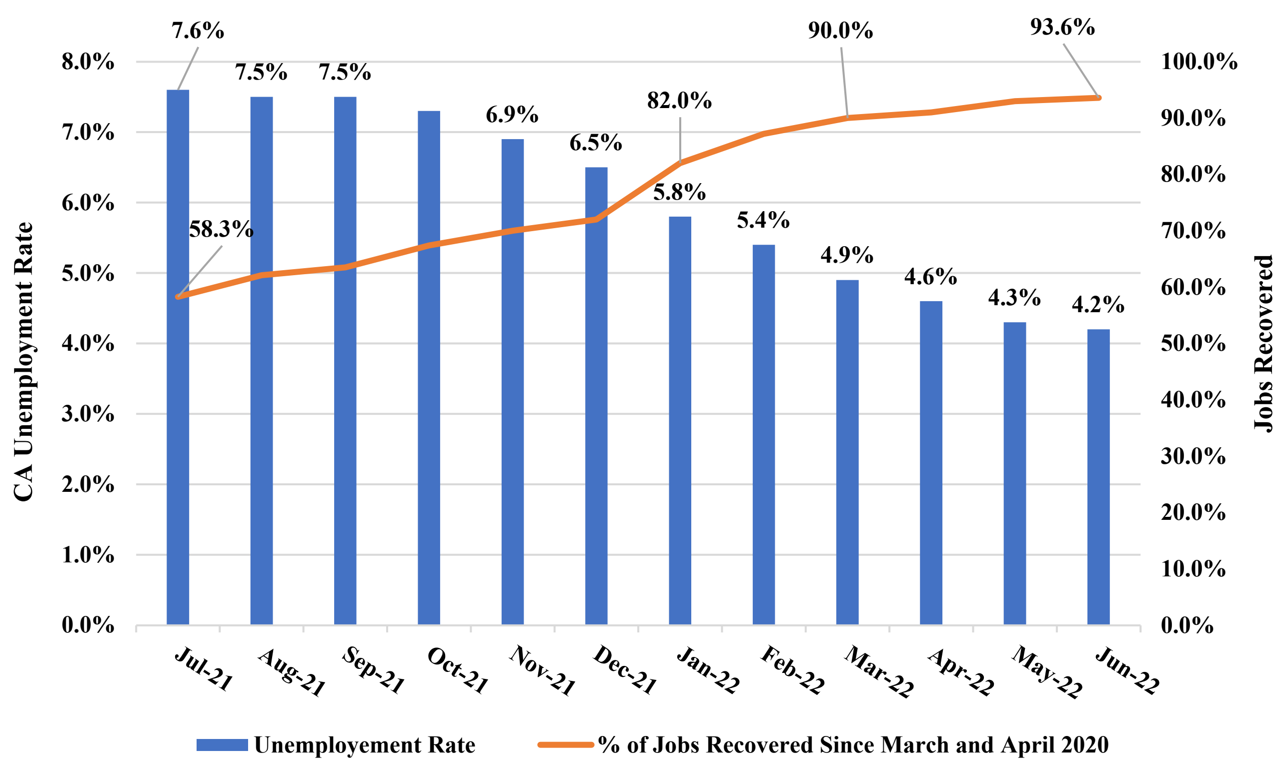


Economic and Labor Market Recovery Continued

Throughout FY 2021-22, the economy continued to recover from the COVID-19 pandemic and the short recession occurring between February and April 2020. California's labor market continued its recovery, with unemployment declining from the high point of 16.1 percent in May 2020 to 7.6 percent by July 2021. By July 2021, California had regained 1,582,900 jobs, or 58.3 percent of the 2,714,800 jobs lost in March and April of 2020.

By the end of the fiscal year in June 2022, California's unemployment rate had declined to 4.2 percent. By June 2022, California had regained 93.6 percent of the nonfarm jobs lost during March and April 2020 due to the COVID-19 pandemic. (**Figure 2**).

Figure 2: California's Unemployment Rate and Jobs Recovered Since the COVID-19 Pandemic Began



Inflation

Record inflation entered the picture mid-way through the fiscal year, as inflation rose to a 40 year high. Over the 12-months ending June 2022, the Consumer Price Index for All Urban Consumers increased 9.1 percent. The 9.1 percent increase in the all-items index was the largest in 40 years, or since the 12-month period ending November 1981[1]. The high inflation coupled with the doubt concerning extending the ARPA enhanced subsidies played an important part in Covered California's budget build for FY 2022-23 as the FY 2021-22 wound down. If the ARPA enhanced subsidies were not extended and consumers faced higher costs across the board, many lower income groups may have dropped health care coverage.

Public Health Emergency Extended

The public health emergency (PHE) was extended throughout FY 2021-22. This meant that transitions from Medi-Cal to Covered California were essentially halted, as Medi-Cal discontinued redeterminations. Individuals enrolled in Medi-Cal but were not disenrolled administratively during the PHE when their eligibility circumstances changed.

FY 2021-22 proved to be a successful year for Covered California. Covered California arranged for health care coverage for more Californians than ever before and recognized record enrollment levels. Like many organizations, Covered California was challenged throughout FY 2021-22 with COVID-19 induced supply chain disruptions which altered anticipated spending plans. Continued work-from-home arrangements also changed spending patterns related to travel and various office supply categories. Covered California continues to transition from start-up to a more mature organization. Covered California's budgeting practices are being reengineered to achieve realistic budget expectations and incorporate accountability. Achieving the desired outcomes necessitates evaluating inputs and outputs and measuring effectiveness and efficiency. The budget not only telegraphs Covered California's budget priorities, but it also represents a vital internal control measure that is used to compare actual financial results with the Board adopted budget. The objective of Covered California's financial statements and reporting is accountability and transparency, representing the foundation of all financial reporting in government. The financial reporting information is designed to be useful for economic, social, and political decisions.

Financial Statements

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

- *The Statement of Net Position* presents information on Covered California's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is reported as net position. Over time, increases or decreases in net position serve as an indicator of whether the financial position of Covered California is improving or deteriorating.
- *The Statement of Revenues, Expenses, and Changes in Net Position* provides information about Covered California's revenues and expenses on an accrual basis. The difference between revenues and expenses reflects the change in net position for the fiscal year.

[1] Consumer prices up 9.1 percent over the year ended June 2022, largest increase in 40 years: The Economics Daily: U.S. Bureau of Labor Statistics (bls.gov)

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

The notes to the financial statements provide additional information that is essential to fully understanding the financial statements. The notes to the financial statements can be found on pages 22 through 45 of this report.

Financial Highlights

- The ending FY 2021-22 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 gain 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. The working capital to expense ratio equaled 14.7 months on June 30, 2022.
- Cash flows from operations for FY 2021-22 totaled $49.0 million (**Table 3**).
- In FY 2021-22, overall cash inflows exceeded cash outflows. Total cash inflows equaled $403.6 million, while total cash outflows equaled $354.6 million. This resulted in cash inflows exceeding outflows by $31.7 million (**Table 3**).

Summary of the Statement of Net Position

Covered California's financial position at the end of FY 2021-22 totaled $18.1 million (**Table 1**). Covered California's unrestricted deficit (i.e., net position excluding the net investment in capital assets) was a deficit of $96.1 million at the end of FY 2021-22.

Table 1
Covered California
Condensed Summary of Net Position

	2022	2021	Difference
Cash	$ 510,254,920	$ 478,579,584	$ 31,675,336
Other Current Assets	42,241,342	36,186,008	6,055,334
Capital assets, net	140,779,858	134,768,137	6,011,721
Total assets	693,276,120	649,533,729	43,742,391
Deferred outflows of resources	82,530,414	66,116,656	16,413,758
Total assets and deferred outflows of resources	775,806,534	715,650,385	60,156,149
Current liabilities	87,978,915	84,970,000	3,008,915
Noncurrent liabilities	32,653,560	19,959,615	12,693,945
Other noncurrent liabilities			
Net OPEB liabililty	379,189,000	365,122,000	14,067,000
Net pension liability	133,973,158	202,261,884	(68,288,726)
Noncurrent liabilities	545,815,718	587,343,499	(41,527,781)
Total liabilities	633,794,633	672,313,499	(38,518,865)
Deferred inflows of resources	123,946,225	55,953,462	67,992,763
Total liabilities and deferred inflows of resources	757,740,858	728,266,961	29,473,898
Investment in capital assets	114,156,993	134,768,137	(20,611,144)
Unrestricted	(96,091,316)	(147,384,715)	51,293,398
Total net position	$ 18,065,676	$ (12,616,578)	$ 30,682,254

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 Government 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 $464.5 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

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.

Table 2
Covered California
Condensed Summary of Revenues, Expenses, and Changes in Net Position

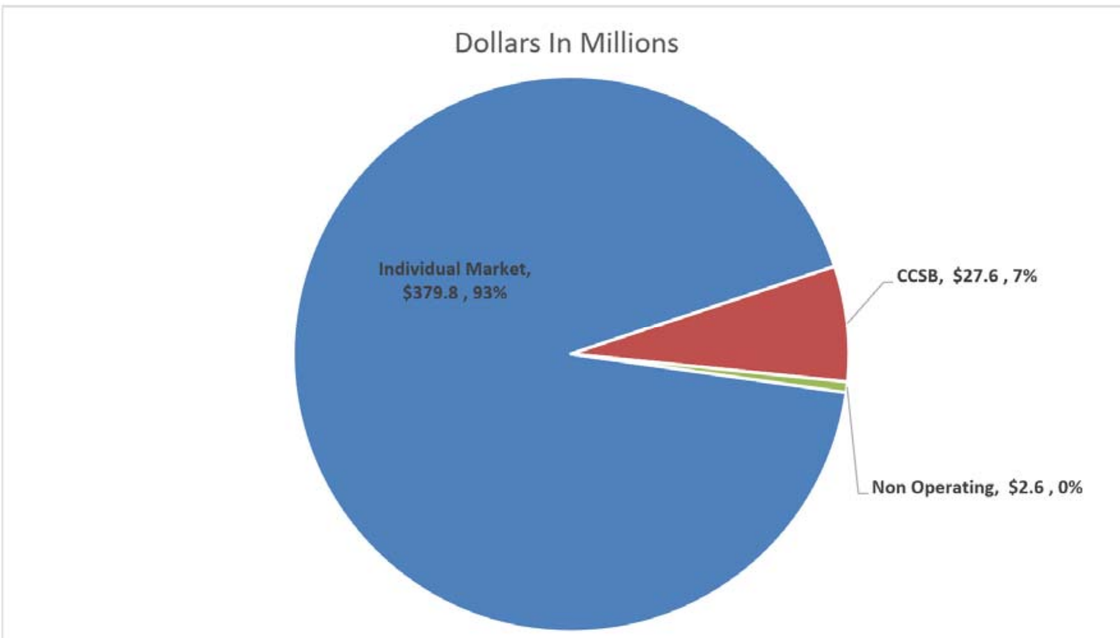
	2022	2021	Difference
Revenues			
Individual Market Revenue	$ 379,760,436	$ 355,690,379	$ 24,070,057
CCSB Revenue	27,596,646	20,639,697	6,956,948
Total Operating Revenues	407,357,082	376,330,076	31,027,005
Expenses			
Salary and Wages Expense	151,564,990	179,413,923	(27,848,933)
Operating expenses	228,022,749	272,497,384	(44,474,635)
Total Operating Expenses	379,587,739	451,911,307	(72,323,568)
Operating income (loss)	27,769,342	(75,581,231)	103,350,573
Nonoperating revenue	2,912,912	2,246,218	666,694
Changes in net position	30,682,254	(73,335,013)	104,017,266
Total net position - beginning of year	(12,616,578)	60,718,435	(73,335,013)
Total net position - end of year	$ 18,065,676	$ (12,616,578)	$ 30,682,254

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 3**). 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.

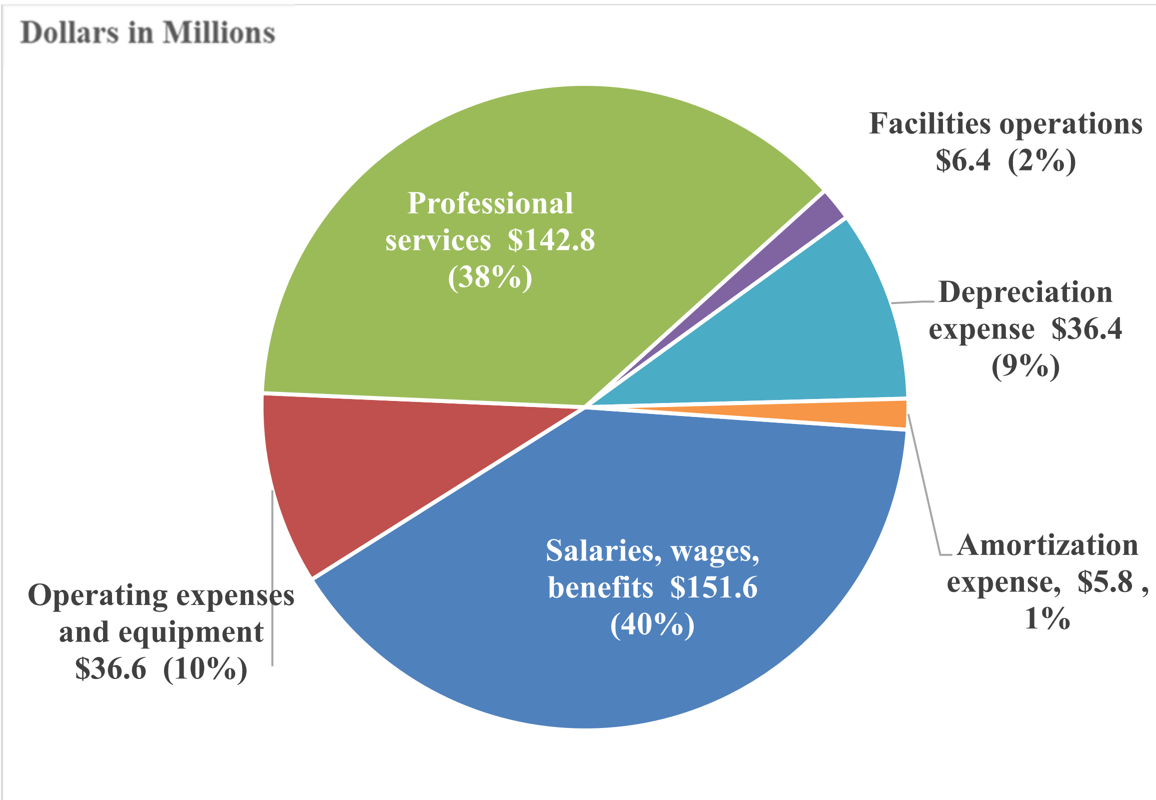
Non-operating revenue totaled $2.9 million for FY 2021-22. Non-operating revenue consisted of $1.1 million related to a federal grant and $1.4 million related to interest revenue. The interest revenue was associated with interest income on investments held in the State's Surplus Money Investment Fund (SMIF).

Figure 3:
Operating And Non-Operating Revenue for Fiscal Year 2021-22
(Total = $409.2 million)



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

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 $54.9 million (**Table 3**). 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 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 3
Covered California
Condensed Statement of Cash Flows for FY 2021-22

Cash Inflows from Operations	$ 404,772,590
Cash Outflows from Operations	(349,878,967)
Cash Flows from Operating Activities	54,893,623
Cash Flows from Noncapital Financing Activities	(5,903,511)
Cash Flows from Capital Financing Activities	(18,290,541)
Cash Flows from Investing Activities	975,766
Net Increase/(Decrease) in Cash	$ 31,675,337

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 GAAP basis, which uses an economic resources measurement focus and full accrual basis of accounting. The economic resource basis measures activity regardless of whether cash transactions transpire, such as depreciation and retirement accruals.

FY 2021-22 actual budgetary financial outcomes were more favorable than projected. The FY 2021-22 approved budget projected an operating loss of $32.5 million. Total budgeted operating revenues equaled $395.1 million, while total budgeted operating expenses equaled $427.6 million. Budgetary net position was projected to decline by $28.0 million (**Table 4**).

Actual FY 2021-22 operating revenue totaled $408.0 million, or 3.3%, more than budgeted. This favorable operating revenue budget variance was the result of both volume and price variations. Actual Individual Medical enrollment was 248,674 member months greater than forecasted, contributing to 76% of the favorable variance. The assessment fee per-member-per-month (PMPM) was $0.07 more than projected, contributing to 24% of the favorable budget variance.

FY 2021-22 actual expenditures were $372.3 million, or $55.3 million less than budgeted. This favorable expenditure variance was due to a $10.1 million favorable personnel expenditures variance and a $45.1 million favorable variance in other operating expenditures. The personnel expenditure variance was due primarily to a higher-than-expected vacancy rate. The favorable variance for other operating expenditures was due to contracted expenditures that did not materialize.

The FY 2021-22 approved budget assumed an operating loss of $32.5 million. However, the actual operating gain totaled $35.6 million, resulting in a favorable variance of $62.8 million. The FY 2021-22 approved budget projected a decrease in net position of $28.0 million; however, the actual results disclosed an increase in net position of $37.5 million.

Table 4
Covered California
FY 2021-22 Budget to Actual Comparison
Budgetary Accounting – non-GAAP

	FY 2021-22 Approved Budget	FY 2021-22 Budgetary Actuals	FY 2021-22 Variance From Budget
Authorized Positions	1,440	1,441	1
Additions			
Individual Market Revenue	$ 372,862,785	$ 379,760,436	$ 6,897,651
CCSB Medical, Dental, COBRA	22,217,771	28,203,174	5,985,403
Non-Operating Revenue	4,500,000	1,837,393	(2,662,607)
Total Additions	**399,580,556**	**409,801,003**	**10,220,447**
Deductions			
Personnel Expenditures	162,074,821	151,933,607	(10,141,214)
Other Operating Expenditures	265,512,383	220,387,647	(45,124,736)
Total Deductions	**427,587,204**	**372,321,254**	**(55,265,950)**
Change in Fund Balance	**$ (28,006,648)**	**$ 37,479,749**	**$ 65,486,397**

Budgetary Basis Results Compared to GAAP Basis Reconciliation

Covered California's change in net position on a budgetary basis increased by $37.5 million in FY 2021-22. The change in net position under GAAP for FY 2021-22 was a net increase of $30.7 million. Table 5 presents a reconciliation of the differences in the change in net position between the budgetary basis of accounting and the GAAP basis of accounting.

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

Table 5
Budgetary Accounting to GAAP Conversion

	FY 2021-22
Budgetary legal change in net position	**$ 37,479,750**
Pension expense (GASB 68 adjustments)	16,902,721
OPEB (GASB 75 adjustments)	(14,260,000)
Capital asset purchases	16,681,452
Depreciation expense	(36,365,414)
Compensated absences	217,299
Other GAAP adjustments, net	(2,590,132)
GAAP change in net position	**$ 18,065,676**

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 investment returns of the CalPERS pension fund, the extension of the ARPA subsidies, the elimination of the continuous coverage requirement in Medi-Cal, the IRS rule change pertaining to the "family glitch", and the cost pressures associated with salaries and wages. More distantly in the future, the scheduled expiration of enhanced federal subsidies in December 2025 could lead to a substantial loss of enrollment.

Covered California's employees participate in the CalPERS pension retirement program. The investment returns of the CalPERS retirement fund directly impact the amount Covered California must annually report as a Salary and Wage expense. In addition to the employer contributions made during the monthly payroll process, Covered California also recognizes the organization's proportion of the retirement fund's annual investment returns. The impact of the investment results is delayed one-year due to the timing of reporting. During FY 2020-21, CalPERS investment returns were higher than expected when the pension fund had a return of 21.3%. This was significantly higher than the 6.8% discount rate. This resulted in a one-time decrease in the unfunded liability and corresponding pension costs for the year of $26.6 million. Looking forward, during FY 2021-22, CalPERS reported a loss of 7.1%. Covered California's proportionate share of this loss will be reflected in Covered California's FY 2022-23 financial statements and will likely have a negative impact.

Covered California is subject to civil service labor agreements that may result in personnel expense cost pressures. Roughly 40 percent of Covered California's operating expenses are associated with personnel costs. Beginning July 1, 2022, a 2.5% negotiated salary increase went into effect. While there are no additional salary increases in the current labor agreements that would impact Covered California, the Governor's January 2023 Proposed Budget did earmark some funding for state employee raises, which indicates that a cost-of-living adjustment is likely. While Covered California does not receive any state general fund dollars, it is required to comply with negotiated salary agreements.

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 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 enrollment levels that are higher than historical trends through December 31, 2025.

2. On October 13, 2022, the IRS issued a revised interpretation, or rule change, relating to the so-called "Family Glitch." The "family glitch" refers to a 2013 rule in which the Internal Revenue Service (IRS) determined that an employee and their family members were ineligible for premium tax credits if the employer offered "affordable" coverage for the employee-only. Affordable was defined as less than 9.12 percent of household income. This was true even if the employer offered family coverage that was unaffordable.

   Under the new rule, employer coverage is affordable for family members if the employee's contribution towards family coverage is less than 9.12 percent of household income. If an employee's contribution exceeds this amount, their family members will be eligible for marketplace subsidies. The rule change is expected to result additional enrollments in Covered California. There is significant uncertainly regarding the timing of enrollments and the volume.

3. On December 29, 2022, President Biden signed into law the Consolidated Appropriations Act of 2023. Prior to 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 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 continuous coverage unwind outflows are expected to begin in July 2023 and result in additional enrollments into Covered California qualified health plan each month, through June 2024. The additional enrollment will increase Covered California's revenue. There is uncertainty related to the timing and enrollment volume that may materialize.

4. As noted above, the Inflation Reduction Act extended the enhanced premium tax credits through 2025. Following their expiration, enrollees will see an increase in individual contribution towards their premiums. We expect the "sticker shock" to induce a number of individuals to drop coverage. The loss of enrollment would result in a commensurate reduction in revenue. The outcome depends upon whether Congress extends or makes the enhanced subsidies permanent.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Statement of Net Position
June 30, 2022

Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$	510,254,920
Receivables:		
Grant receivable		1,107,393
Enrollment fees (net of allowance for cancelled enrollments)		32,804,254
Other receivables		1,193,004
Total receivables		35,104,651
Other current assets		7,136,691
Total current assets		552,496,262
Noncurrent assets:		
Depreciable capital assets		434,524,053
Less accumulated depreciation		(319,439,877)
Right of Use Assets (lease assets)		31,505,683
Less accumulated amortization		(5,810,001)
Capital assets, net		140,779,858
Total assets		693,276,120
Deferred Outflows of Resources		
Deferred outflows of resources - pension		41,077,414
Deferred outflows of resources - OPEB		41,453,000
Total deferred outflows of resources		82,530,414
Total assets and deferred outflows of resources	$	775,806,534

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Statement of Net Position
June 30, 2022

Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable	$	64,593,750
Accrued liabilities		683,372
Unearned revenue		1,837,852
SB84 loan payable to State		3,208,000
Compensated absences		12,119,233
Lease liability (Right of Use) - current portion		5,829,709
Total current liabilities		88,271,916
Noncurrent liabilities:		
Compensated absences		7,655,899
Other liabilities		175,392
SB84 loan payable to State		3,736,113
Lease liability (Right of Use) - noncurrent portion		20,793,156
Net other postemployment benefits liability		379,189,000
Net pension liability		133,973,158
Total noncurrent liabilities		545,522,717
Total liabilities		633,794,633
Deferred Inflows of Resources		
Deferred inflows of resources - pension		56,791,225
Deferred inflows of resources - OPEB		67,155,000
Total deferred inflows of resources		123,946,225
Total liabilities and deferred inflows of resources		757,740,858
Net Position		
Net investment in capital assets		114,156,993
Unrestricted (deficit)		(96,091,317)
Total net position	$	18,065,676

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

Operating revenues:		
Enrollment fees-individual	$	379,760,436
Enrollment fees-CCSB		27,596,646
Total operating revenues		407,357,082
Operating expenses:		
Salaries, wages, benefits		151,564,990
Operating expenses and equipment		36,630,395
Professional services		142,803,067
Facilities operations		6,413,873
Depreciation expense		36,365,414
Amortization expense		5,810,001
Total operating expenses		379,587,739
Operating income		27,769,342
Nonoperating revenues (expenses):		
Federal grants		1,107,393
Interest income		1,444,650
Other income (expense)		520,192
Loss on disposal of assets		(159,323)
Total nonoperating revenues and expenses		2,912,912
Change in net position		30,682,254
Total net position - beginning or year, as originally reported		(14,686,182)
Plus: prior-period adjustment for error correction (Note 9)		2,069,604
Total net position – beginning of year, as restated		(12,616,578)
Total net position – end of year	$	18,065,676

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Statement of Cash Flows
For the Year Ended June 30, 2022

Cash flows from operating activities:		
Receipts from enrollment fees	$	404,772,590
Payments to employees and for employee benefits		(154,410,268)
Payments to suppliers		(195,468,699)
Net cash provided by operating activities		54,893,623
Cash flows from noncapital financing activities:		
Repayment of SB 84 interfund loan		(6,376,247)
Other income (expenses)		472,736
Net cash used in noncapital financing activities		(5,903,511)
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(12,654,473)
Lease principal payments		(5,636,069)
Net cash used in capital and related financing activities		(18,290,541)
Cash flows from investing activities:		
Interest income		975,766
Net cash provided by investing activities		975,766
Net increase in cash and cash equivalents		31,675,337
Cash and cash equivalents – beginning of year		478,579,584
Cash and cash equivalents – end of year	$	510,254,921
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	27,769,342
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		42,175,415
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		(3,290,309)
(Increase) decrease in other assets		(1,141,293)
Changes in pension obligations		(16,902,721)
Changes in OPEB obligations		14,260,000
Increase (decrease) in accounts payable		(8,204,130)
Increase (decrease) in accrued liabilities		14,742
Increase (decrease) in unearned revenue		705,818
Increase (decrease) in compensated absences		(217,299)
Increase (decrease) in other liabilities		(275,941)
Net cash provided by operating activities	$	54,893,624
Supplemental disclosure of non-cash activities:		
Loss on disposal of capital assets	$	159,323
Change in capital asset purchases included in accounts payable		4,186,303
Acquisition of right to use lease assets		965,559

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

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

Covered California is 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 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. 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 2021 and 2022. The CCSB participation fee was 5.20% of the premium due by each enrollee in plan years 2021 and 2022.

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 into 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. 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.

Covered California was awarded a Centers for Medicare & Medicaid Services (CMS) State Marketplace Modernization Grant in the amount of $1,107,393 during the year ended June 30, 2022.

(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: amounts owed from health insurance carriers for participation fees for the individual market of $32.8 million, abatements of $0.4 million, amounts due from the SMIF of $0.8 million, and $1.1 million of federal grants receivable due from CMS.

(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 is computed using the straight-line method over the shorter of the lease term or the useful life.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*, Covered California has recorded internally generated computer software that went live on October 1, 2013. Intangible assets are considered internally generated if they are created or produced by Covered California or an entity contracted by Covered California, or if they are acquired from a third party but require more than 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 fiscal year 2021-22 were $16.5 million. Depreciation of the intangible assets began on October 1, 2013 and totaled $34.1 million for fiscal year 2021-22.

(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 total includes amounts due to carriers and agents for the CCSB market of $33.6 million for fiscal year 2021-22 and payables to other third parties totaling $31.0 million.

(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 date as of June 30, 2021, which is the most recent information available.

(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 earning, with the net difference amortized to pension expense over a five-year period beginning in the current reporting period.

- 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 with regard to economic or demographic factors; changes of assumptions about further 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.

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 total 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. 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. 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 specified time period in an exchange or exchange-like transaction. The requirements of this statement are similar to those of GASB Statement No. 87, *Leases*. The requirements of this statement are effective with fiscal years beginning after June 15, 2022. Covered California's management is currently evaluating the impacts of this statements.

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. This statement requires that liabilities compensated absences be recognized for (1) leave that has not yet been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The requirements of this statement are effective with fiscal years beginning after December 15, 2023. Covered California's management is currently evaluating the impacts of this statement.

(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 at June 30, 2022.

Cash in State Treasury	$	67,399,920
Surplus Money Investment Fund (SMIF)		442,855,000
Total	$	510,254,920

As of June 30, 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.

At June 30, 2022, the balance of the SMIF, of which Covered California's estimated share was 0.188875 percent, was as follows:

U.S. Treasury Securities	$ 159,491,762,000
Federal Agency Debt	42,083,898,000
Supranational Debentures	2,211,833,000
Bank Notes	100,000,000
Certificates of Deposit	13,285,000,000
Commercial Paper	11,523,629,000
Bonds	492,675,000
Time Deposits	4,453,000,000
AB 55 and General Fund Loans	828,153,000
	$ 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, 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 0.0371 percent for the year ended June 30, 2022.

At June 30, 2022 the weighted average maturity of PMIA investments was approximately 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, 2022.

(3) Capital Assets

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

	Beginning Balance July 1, 2021[1]	Increases	Decreases	Ending Balance July 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)	10,922,179
Leasehold improvements	9,138,230	-	(327,681)	8,810,550
Total depreciable capital assets	418,874,817	16,840,776	(1,191,540)	434,524,053
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 capital assets, being depreciated, net	134,768,137	(19,524,638)	(159,323)	115,084,176
Right of use assets (lease assets):				
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, 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, 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 and for all prior periods presented, 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
- Building lease 4 —7677 Oakport Steet, Suite 800, Oakland, CA, 94621
- Building lease 5—1601 Response Road, Sacramento, CA, 95815

Table of Lease Terms, Conditions, and Values

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, 2022, are as follows:

	Beginning Balance[1]	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, 2022, are as follows:

Year Ending June 30,	Principal	Interest	Total
2023	$ 5,829,709	$ 140,043	$ 5,969,752
2024	5,749,426	116,814	5,866,240
2025	5,893,230	93,142	5,986,372
2026	2,126,088	72,340	2,198,428
2027	1,857,035	55,598	1,912,633
2028-2032	5,167,377	67,519	5,234,896
Total	$ 26,622,865	$ 545,456	$ 27,168,321

(5) 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.

Changes in the loan payable for the year ended June 30, 2022 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loan payable SMIF (SB84)	$ 13,320,360	$ -	$ 6,376,247	$ 6,944,113	$ 2,915,000

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 2022-23	$ 2,915,000	$ 293,000	$ 3,208,000
FY 2023-24	3,030,000	178,000	3,208,000
FY 2024-25	999,113	230,000	1,229,113
Total	$ 6,944,113	$ 701,000	$ 7,645,113

(6) Retirement and Other Postemployment Benefits

(a) Retirement Plan

Covered California adopted GASB 68 during the 2014-15 fiscal year. GASB 68 requires using specific valuation and measurement dates. For this report, the following valuation and measurement dates are used:

	2022
Valuation date (VD)	June 30, 2020
Measurement date (MD)	June 30, 2021
Measurement period (MP)	July 01, 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 (First Tier and Second Tier). CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State and uses the accrual basis of accounting. Benefit provisions and all other requirements are established by state statute.

CalPERS issues a separate 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 the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the Miscellaneous Plan measurement period ended June 30, 2021, the active employee contribution rate was 8 percent to 11 percent of annual pay for Tier 1 and 3.75 percent of annual pay for Tier 2. The employer's contribution rate for the Miscellaneous Plan Tier 1 and Tier 2 was 29.22 percent of annual payroll for the measurement period ended June 30, 2021. These rates reflect PERL Section 20683.2, which mandates that certain employees contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

Discount Rate

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

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

The State Controller's Office (SCO) used a calculated percentage based on Covered California's share of the pensionable compensation to the State's total pensionable compensation amounts for the State Miscellaneous Plan, to provide Covered California's proportionate share of net pension liability and related GASB 68 accounting elements. For the June 30, 2021 measurement period Covered California's calculated percentage for the State Miscellaneous Plan was 0.601058 percent.

Covered California's net pension liability for its proportionate share of the State Miscellaneous Plan 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 period ended June 30, 2021, Covered California incurred a non-cash pension expense of $15,595,792.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	$ 32,498,513	$ -
Difference Between Expected and Actual Experience	8,578,901	1
Change in Assumptions	-	201,949
Net Difference In Projected and Actual Earnings on Pension Plan Investments	-	56,589,275
Total	**$ 41,077,414**	**$ 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
2022	$ (9,343,153)
2023	(10,789,093)
2024	(12,535,097)
2025	(15,544,981)
Total	**$ (48,212,324)**

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liability as of the 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 Normal
Amortization Method/Period:	The 2018 CalPERS Actuarial Amortization Policy specifies that all changes in liability due to plan amendments (other than golden handshakes which are amortized over 5 years), changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. Commencing with the 2019 valuation, all new gains or losses are tracked, and the net unamortized gain or loss is amortized over a fixed 20-year period with a 5 year ramp up at the beginning of the amortization period.
Asset Valuation Method:	Fair Value
Inflation:	2.50%
Salary Increases:	Varies by entry age and service
Payroll Growth:	2.75%
Investment Rate of Return:	7.15%
Retirement Age:	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality Rate Table:	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using Scale 90% of scale MP 2016 published by the Society of Actuaries.
Post Retirement Benefit Increase:	The lesser of the contract cost of living adjustment (COLA) or 2.50 percent until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50 percent thereafter.

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

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

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

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

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

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%		

Subsequent Events

The Accounting Valuation Report for the June 30, 2021 Measurement Date included the following:

"On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date."

After the Accounting Valuation Report was issued, on July 20, 2022 CalPERS announced a preliminary net investment return of (6.1%) for the fiscal year 2021-22.

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, 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:

	2022
Valuation date (VD)	June 30, 2021
Measurement date (MD)	June 30, 2021
Measurement period (MP)	July 01, 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 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 2021-22 was $798 for a single enrollee, $1,519 for an enrollee and one dependent, 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 $15,966,000 for postretirement health and dental benefits for retired members and prefunding for the year ended June 30, 2022. For the measurement date ended June 30, 2021, Covered California's cash contributions were approximately $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

At June 30, 2022, Covered California reported a liability of $379,189,000 for its proportionate share of the OPEB Plan net OPEB liability in accordance with the parameters of GASB 75. 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, 2022, Covered California's combined proportionate share, based on its attributable bargaining unit or valuation groups' contributions for the year ended June 30, 2021 was 0.520965 percent.

Covered California incurred a non-cash OPEB expense for the measurement period June 30, 2021 (the measurement date) of $30,226,000.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	$ 15,966,000	$ -
Difference Between Expected and Actual Experience	222,000	49,245,000
Change in Assumptions	25,265,000	16,852,000
Net Difference In Projected and Actual Earnings on OPEB Plan Investments	-	1,058,000
Total	**$ 41,453,000**	**$ 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/(Inflows) of Resources
2022	$	(13,954,000)
2023		(12,725,000)
2024		(8,010,000)
2025		(2,047,000)
2026		(2,150,000)
Thereafter		(2,782,000)
Total	$	(41,668,000)

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

Actuarial Methods and Assumptions Used to Determine Total OPEB Liability

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:

Actuarial Cost Method:	Entry age normal
Actuarial Valuation Method:	Fair Value
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 1.92%.
Inflation	2.30%.
Salary increases	Varies by entry age and service
Investment rate of return	6.00%.

Mortality rate	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	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 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 PERS Care 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	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 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	59.00%	4.80%	5.98%
Fixed Income	25.00%	1.10%	2.62%
Treasury Inflation-Protected Securities	5.00%	0.25%	1.46%
Real Estate Investment Trusts (REITs)	8.00%	3.50%	5.00%
Commodities	3.00%	1.50%	2.87%
Total	100.00%		

Discount Rate

The discount rates used to measure the total OPEB liability was based on a blended rate for each valuation group. 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 valuation as of June 30, 2021 includes 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* on the SCO website, at www.SCO.ca.gov.

Changes in Assumptions

In the period ended June 30, 2021 the following changes were made: demographic assumptions were updated per the 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, 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, 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.

(7) Commitments and Contingencies

There are no commitments or contingencies.

(8) Risk Management

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

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

(9) Prior Period Error Correction

Covered California identified errors in past transactions used to eliminate agency revenue and expenses associated with Covered California for Small Business (CCSB). The cumulative effect of these errors totaled $2,069,604, which related to FY 2014-15 through FY 2020-21. The cumulative impact of these errors was an overstatement of professional services expenses of $2,149,535 and an overstatement of CCSB participation fee revenue of $79,931. As a result of these errors, FY 2021-22 beginning net position was restated. FY 2021-22 beginning net position was restated as presented below:
The error correction is being reported by restating beginning net position as follows:

	Net Position
June 30, 2021, as previously reported	($14,686,182)
Error correction	2,069,604
June 30, 2021, as restated	($12,616,578)

(10) Subsequent Events

Congress enacted the Families First Coronavirus Response Act (FFCRA) when the pandemic began. With the goal of ensuring Americans could maintain coverage through the height of the pandemic, the FFCRA required Medi-Cal to keep individuals continuously enrolled through the end of the month when the COVID-19 public health emergency (PHE) expired. The continuous coverage requirement meant that individuals were not disenrolled from Medi-Cal for the past three years regardless of changes that would normally impact their eligibility status. As a result, Medi-Cal's enrollment grew from 12.5 million to roughly 15.5 million enrollees, providing a critical coverage safety net to millions of Californians.

With the passage of the Consolidated Appropriations Act of 2023, Congress identified March 31, 2023, as the end of the Medi-Cal continuous coverage requirement. Beginning April 1, 2023, and continuing for the coming year, Medi-Cal resumed reevaluating eligibility for enrollees. Based on a California Department of Health Care Services (DHCS) forecast, Medi-Cal's caseload is expected to trend downward toward pre-pandemic levels. DHCS estimates that between 2 and 3 million Medi-Cal dis-enrollments may occur as normal eligibility redeterminations resume.

It is forecasted that with the resumption of Medi-Cal redeterminations, Covered California's enrollment will rise as individuals exit Medi-Cal. Covered California forecasts that between 17,856 and 33,066 individuals may enroll in Covered California each month between July 2023 and June 2024, and this additional enrollment will in turn increase Covered California's revenue.

The family glitch rule change went into effect on December 12, 2022 and enables family members of low-income workers to qualify for financial assistance under the ACA. Qualifying family members were able to take advantage of this new option beginning with the 2023 Open Enrollment period. It is expected that this rule change will increase Covered California's enrollment' however there is considerable uncertainty regarding the magnitude and timing of the enrollment gains.

The "family glitch" refers to a 2013 Affordable Care Act (ACA) implementation rule in which the Internal Revenue Service (IRS) determined that an employee and their family members were ineligible for premium tax credits if the employer offered affordable coverage to the employee. This was true even if the employer offered family coverage that was unaffordable. As a result, the cost of family coverage was not considered when determining whether job-based coverage was affordable for spouses and dependents.[1] This resulted in dependents being excluded from subsidized Marketplace coverage.

On October 13, 2022, the Biden administration published a final rule to fix the family glitch. Overall, this regulatory change will enable many family members of low-income workers to qualify for financial assistance under the ACA. Members of the employee's family will be eligible for financial assistance through the Marketplace if the premium for the employee's family coverage is considered unaffordable.[2] For 2023, a plan is considered "unaffordable" if the plan's premiums exceed 9.12 percent of household income.

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[1] https://www.commonwealthfund.org/blog/2022/family-glitch-fix-provides-new-affordable-coverage-option
[2] https://www.cms.gov/files/document/affordability-employer-coverage-family-members-employees.pdf

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Covered California's Proportionate
Share of the Net Pension Liability
Last 8 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 do not include any liability impact that may have resulted from voluntary benefit changes that occurred on or before the Measurement Date. Howerver, offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes) that occured 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: In 2014 amounts reported were based on the 7.50 percent discount rate. In 2015, amounts reported reflect an adjustment of the discount rate from 7.50 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2016, there were no changes. In 2017 the discount rate was reduced from 7.65 percent to 7.15 percent. In 2018 demographic assumptions and inflation rates were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2019-2022 there were no changes.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Covered California's Proportionate
Share of the Net Pension Liability (Continued)
Last 8 Years (2)

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

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

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Plan Contributions Pension
Last 8 Years (1)

SCHEDULE OF PLAN CONTRIBUTIONS PENSION

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

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

Notes to Schedule:

Valuation Date	June 30, 2020
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
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 2018 CalPERS Experience Study for the period 1997-2015.
Mortality	The probabilities of mortality are based on the 2018 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 8 Years [1]

SCHEDULE OF PLAN CONTRIBUTIONS PENSION (continued)

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

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Covered California's Proportionate Share of the Net OPEB Liability
Last 5 Years [(1)]

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

Fiscal Year	2018	2019	2020	2021	2022
Measurement Period	2017	2018	2019	2020	2021
Covered California's Proportion of the Net OPEB Liability	0.347280%	1.105186%	0.431673%	0.462595%	0.520965%
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
Covered California's Covered-Employee Payroll	$ 55,854,234	$ 86,743,694	$ 98,343,086	$ 112,986,169	$ 113,444,926
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%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.47%	1.53%	2.75%

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

Notes to Schedule:

Benefit Changes: For 2021, 2020, 2019, and 2018 there were no changes to the benefit terms.

Changes of Assumptions: For 2021, 2020, and 2019, the blended discount rates used in the actuarial assumptions changes from the prior year. For 2018, healthcare related assumptions were updated based on experience through June 30, 2017.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Contributions - OPEB
Last 5 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 2021.

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	The 2022 trend rates are based on actual premium increases for 2022. For 2023 and beyond, an initial trend rate of 7.50% was used for Pre-Medicare per capita claim costs and premium, and Post-Medicare preimum 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 4.96% for 2022, 8.30% in 2023, grading down to 4.66% in 2030 for PERS Care, 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 plans is 4.50% from 2031 to 2037 and 4.25% on 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 5 Years [1]

SCHEDULE OF CONTRIBUTIONS – OPEB (continued)

	2021	2022
Actuarially Determined Contribution	$ 14,100,000	$ 15,966,000
Contribution in Relation to the Actuarily Determined Contributions	(14,100,000)	(15,966,000)
Contribution Deficiency (Excess)	$ -	$ -
Covered Payroll	$ 112,986,169	$ 113,444,926
Contributions as a Percentage of Covered-Employee Payroll	12.48%	14.07%

CALIFORNIA HEALTH BENEFIT EXCHANGE (COVERED CALIFORNIA)

Single Audit Reports

For the Year Ended June 30, 2022

Certified Public Accountants

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
For the Year Ended June 30, 2022

Table of Contents

MGO. Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
California Health Benefit Exchange
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Health Benefit Exchange (Covered California), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Covered California's basic financial statements, and have issued our report thereon dated May 24, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Macias Gini & O'Connell LLP

Sacramento, California
May 24, 2023

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Directors
California Health Benefits Exchange
Sacramento, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the California Health Benefit Exchange's (Covered California), compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Covered California's major federal programs for the year ended June 30, 2022. Covered California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Covered California complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Covered California and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Covered California's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Covered California's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Covered California's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Covered California's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Covered California's compliance with the requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Covered California's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Covered California's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Covered California as of and for the fiscal year ended June 30, 2022, and have issued our report thereon dated May 24, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Sacramento, California
May 24, 2023

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CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Federal Program Name	Federal Assistance Listing Number	Grant Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Direct Programs:				
COVID-19 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	SEMIE210013-01-00	$ 1,107,393	$ -
Total U.S. Department of Health and Human Services			1,107,393	-
Total Expenditures of Federal Awards			**$ 1,107,393**	**$ -**

See accompanying notes to the schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the California Health Benefit Exchange (Covered California) under programs of the federal government for the fiscal year ended June 30, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Covered California, it is not intended to and does not present the financial position, changes in net position, or cash flows of Covered California.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the accompanying Schedule are presented using the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown, if any, in the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – ASSISTANCE LISTING NUMBERS (ALN)

The ALNs included in the accompanying Schedule were determined based on the program name, review of grant contract information, and the U.S. General Service Administration's SAM.gov website.

NOTE 4 – INDIRECT COST RATE

Covered California has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance Section 2 CFR 200.414.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

Section I Summary of Audit Results

Financial Statements

Type of report issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance with major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as a low-risk auditee?	No

Section II Financial Statement Findings

None reported.

Section III Federal Award Findings and Questioned Costs

None reported.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2022

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Federal Award Findings:

There were no audit findings nor questioned costs reported for the year ended June 30, 2021.