CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Financial Statements with Independent Auditors' Report

Years ended June 30, 2020 and 2019

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the California Health Benefit Exchange (Covered California), as of and for the years ended June 30, 2020 and June 30, 2019, and the related notes to the financial statements, which collectively comprise Covered California's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Covered California, as of June 30, 2020 and June 30, 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2021, on our consideration of Covered California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Covered California's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covered California's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Sacramento, California
April 22, 2021

Introduction

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the California Health Benefit Exchange (Covered California) for the fiscal year ended June 30, 2020. 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 presentation is highly summarized, and in order to gain a thorough understanding of Covered California's financial position, the succeeding financial statements, and notes should be reviewed in their entirety.

Background

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

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

Appointed members serve four-year terms.

With the passage of the Affordable Care Act, the United States Department of Health and Human Services provided financial assistance, through cooperative grant agreements, for the establishment of State-operated health insurance Exchanges. California received a total of $1.1 billion in federal grant funding through December 2014 to establish an Exchange that would facilitate the purchase of qualified health plans, provide for the establishment of a Small Business Health Options Program and meet other requirements outlined in the Affordable Care Act. Covered California subsequently received federal approval to use unspent grant funds for establishment expenditures through September 30, 2016. Fiscal Year 2016-17 marked the first year that Covered California relied solely on fees collected from health plans to support operations.

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

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

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Since the first open enrollment in 2014, Covered California has collaborated with California's Medicaid agency, the Department of Health Care Services, to improve access to quality health care in the state. Covered California has reduced the number of uninsured Californians by creating an organized, transparent marketplace for Californians to purchase affordable, quality healthcare coverage offered in four categories, or tiers, each with a metal rating of Bronze, Silver, Gold, and Platinum. Since the inception of Covered California, almost five million people have been insured for at least one month directly through Covered California and approximately four million more are currently enrolled in Medi-Cal due to the Patient Protection and Affordable Care Act expansion.

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 that attempts to be self-sufficient by generating its own revenue from user fees to match expenses much like a commercial business. These financial statements are prepared on an economic resources measurement focus using an accrual basis of accounting.

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 categories is reported as net position. Over time, increases or decreases in net position may serve as a useful 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 the Fund's revenues and expenses on an accrual basis. The difference between revenues and expenses reflect the change in net position for the fiscal year, reconciling to the change in total net position on the Statement of Net Position.

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 the Fund's cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.

The notes to financial statements provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 11 through 32 of this report.

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Financial Highlights

Covered California

Condensed Summary of Net Position

At Fiscal Year-End June 30, 2020 and 2019

	2020	2019	Difference
Current assets	$ 544,121,138	$ 515,280,790	$ 28,840,348
Capital assets, net	145,156,401	157,214,729	(12,058,328)
Total assets	689,277,539	672,495,519	16,782,020
Deferred outflows of resources	64,326,128	49,072,208	15,253,920
Total assets and deferred outflows of resources	753,603,667	721,567,727	32,035,940
Current liabilities	90,019,827	60,871,497	29,148,330
Noncurrent liabilities	542,564,304	509,296,085	33,268,219
Total liabilities	632,584,131	570,167,582	62,416,549
Deferred inflows of resources	60,301,101	69,264,145	(8,963,044)
Total liabilities and deferred inflows of resources	692,885,232	639,431,727	53,453,505
Investment in capital assets	145,156,401	157,214,729	(12,058,328)
Unrestricted	(84,437,966)	(75,078,729)	(9,359,237)
Total net position	$ 60,718,435	$ 82,136,000	$ (21,417,565)

Total assets and deferred outflows increased by $32.0 million. This was the result of the net effect of an increase in cash, receivables, and deferred outflows, and a decrease in capital assets.

Between fiscal year 2018-19 and 2019-20, cash increased by $23.0 million, accounts receivable increased by $6.7 million, and deferred outflows increased by $15.3 million. Net capital assets decreased by $12.1 million.

Capital assets include the capitalized costs associated with the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) as well as office furniture and equipment and leasehold improvements. Covered California's total net investment in capital assets was $145.2 million and $157.2 million at June 30, 2020 and June 30, 2019, respectively. The net decrease in capital assets of $12.0 million was due to $33.0 million in depreciation (mostly related to the CalHEERS), as well as the addition of $20.9 million in new capital investments.

Total liabilities and deferred inflows of resources increased by $53.4 million between fiscal year 2018-19 and fiscal year 2019-20. The increase in liabilities is attributed mostly to a $17 million increase in accounts payable, a $19.6 million increase to the pension liability, and an $11.9 million increase to related to other postemployment benefits (OPEB). Total liabilities consist of current liabilities and noncurrent liabilities. Current liabilities include accounts payable for unpaid goods and services of $90.0 million. Noncurrent liabilities include a net OPEB liability of $338.7 million and a net pension liability of $182.0 million. While Covered California continues to make monthly contributions toward the pension liability, the liability continues to grow due to actuarial factors outside of Covered California's control, and because Covered California continues to add additional positions. Total

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authorized positions at June 30, 2020 was 1,419, which represents a 28 position increase over the June 30, 2019 total of 1,391.

Covered California's total net position decreased by $21.4 million at June 30, 2020 compared to June 30, 2019. Covered California has a deficit of unrestricted net position of approximately $84.4 million.

Covered California's current ratio, a common financial measure of ability to pay, stood at 6.0 at June 30, 2020, which was a decrease from 8.2 at June 30, 2019. Covered California's working capital, the difference between current assets and current liabilities, at June 30, 2020 totaled $454.1 million. Working capital is a measure commonly used to assess the short-term liquidity of a business and how well the organization is able to cover the payment of its forthcoming liabilities.

Summary of Revenues, Expenses, and Changes in Net Position

Covered California

Condensed Summary of Revenues, Expenses and Changes in Net Position

For Fiscal Years 2019-2020 and 2018-2019

	FY 19-20	FY 18-19	Difference
Operating revenues	$ 366,323,257	$ 371,428,067	$ (5,104,810)
Operating expenses	394,990,078	391,642,355	3,347,723
Operating loss	(28,666,821)	(20,214,288)	(8,452,533)
Nonoperating revenue	7,249,256	7,644,949	(395,693)
Changes in net position	(21,417,565)	(12,569,339)	(8,848,226)
Total net position - beginning of year	82,136,000	94,705,339	(12,569,339)
Total net position - end of year	$ 60,718,435	$ 82,136,000	$ (21,417,565)

Operating revenues decreased $5.1 million in fiscal year 2019-20 over the prior fiscal year. The aggressive marketing campaigns that Covered California made were countered-acted by lower than expected enrollment, average premium growth being relatively flat, and Covered California's decision to lower the user fee rate. The user fee rate was reduced from 3.75 percent to 3.5 percent in January 2020.

Operating expenses increased $3.3 million over the prior fiscal year, to $395.0 million in fiscal year 2019-20. Professional services, which include marketing and the service center contract, increased by $28 million.

Operating income for fiscal year 2019-20 reflected a loss of $28.7 million. This combined with non-operating revenue, primarily interest earned, of $7.3 million, resulted in a decrease in net position of $21.4 million.

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Budgetary Legal Basis Compared to U.S. GAAP Basis

Covered California maintains its accounting system and board-approved operating budget on a Budgetary Legal Basis. The Budgetary Legal Basis uses the current resources focus and a modified accrual basis of accounting. The GAAP based financial statements uses an economic resources focus and an accrual basis of accounting. These two methods differ relative to financial reporting. Covered California’s change in net position on a Budgetary Legal Basis for fiscal year 2019-20 was an increase of $10.9 million. The change in net position under GAAP for fiscal year 2019-20 was a decrease of $21.4 million. The table below reconciles these differences.

Covered California
Reconciliation of 2019-2020 Change in Net Position

	In Millions
Budgetary legal change in net position	$ **10.9**
Pension expense	(15.8)
Other postemployment benefits expense	8.5
Capital assset purchases	20.9
Depreciation expense	(33.0)
Other GAAP adjustments, net	(12.9)
GAAP change in net position	$ **(21.4)**

Currently Known Facts, Decisions or Conditions

Covered California increased its marketing budget by $30 million and service center budget by $13 million in fiscal year 2020-21 to help inform customers about their healthcare options in response to the COVID-19 pandemic. Covered California also continues to build on the Affordable Care Act by making significant investments in marketing and outreach in order to promote stable enrollment, foster a healthy risk mix and lower premiums.

During the open-enrollment period of the 2020 plan year, Covered California’s marketing and outreach efforts resulted in an estimated 2.7 billion impressions, meaning every California adult saw or heard the exchange’s messaging an average of 89 times.

Covered California lowered the user fee rate from 3.5 percent to 3.25 percent in January 2021. This equates to approximately a seven percent decrease in revenue, all other factors remaining constant.

Covered California adopted a 2020-21 budget of $440.1 million in expenses and a planned $22.5 million budgeted shortfall in an effort to respond to the needs of the COVID-19 crisis. The budget shortfall was funded out of the reserves for fiscal year 2020-21.

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CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Statements of Net Position

June 30, 2020 and 2019

Assets and Deferred Outflows	**2020**	**2019**
Current assets:		
Cash and cash equivalents	$ 490,081,853	$ 467,067,920
Receivables:		
Enrollment fees (net of allowance for cancelled enrollments)	46,755,530	42,526,467
Other receivables	4,952,289	2,493,571
Total receivables	51,707,819	45,020,038
Other current assets	2,331,466	3,192,832
Total current assets	544,121,138	515,280,790
Noncurrent assets:		
Depreciable capital assets	394,626,657	373,734,498
Less accumulated depreciation	(249,470,256)	(216,519,769)
Capital assets, net	145,156,401	157,214,729
Total assets	689,277,539	672,495,519
Deferred Outflows of Resources		
Deferred outflows of resources - pension	41,570,128	38,614,208
Deferred outflows of resources - OPEB	22,756,000	10,458,000
Total deferred outflows of resources	64,326,128	49,072,208
Total assets and deferred outflows of resources	$ 753,603,667	$ 721,567,727
Liabilities and Deferred Inflows		
Current liabilities:		
Accounts payable	$ 59,252,063	$ 42,154,203
Accrued liabilities	404,547	345,630
Deferred revenue	19,853,051	12,104,657
Interfund loan payable	2,991,689	1,024,951
Compensated absences	7,518,477	5,242,056
Total current liabilities	90,019,827	60,871,497
Noncurrent liabilities:		
Compensated absences	4,754,235	3,301,665
Other liabilities	3,753,163	490,238
Interfund loan payable	13,320,360	16,312,049
Net other postemployment benefits	338,695,000	326,760,000
Net pension liability	182,041,545	162,432,133
Total noncurrent liabilities	542,564,304	509,296,085
Total liabilities	632,584,131	570,167,582
Deferred Inflows of Resources		
Deferred inflows of resources - pension	5,698,101	6,517,145
Deferred inflows of resources - OPEB	54,603,000	62,747,000
Total deferred inflows of resources	60,301,101	69,264,145
Total liabilities and deferred inflows of resources	$ 692,885,232	$ 639,431,727
Net Position		
Net investment in capital assets	$ 145,156,401	$ 157,214,729
Unrestricted (deficit)	(84,437,966)	(75,078,729)
Total net position	$ 60,718,435	$ 82,136,000

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE

(COVERED CALIFORNIA)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

		2020		2019
Operating revenues:				
Enrollment fees-individual	$	350,638,441	$	356,693,687
Enrollment fees-CCSB		15,684,816		14,734,380
Total operating revenues		366,323,257		371,428,067
Operating expenses:				
Salaries, wages, benefits		138,644,031		167,465,583
Operating expenses and equipment		34,559,402		33,210,374
Professional services		157,262,613		129,271,239
Enrollment assistance fees		22,870,767		19,929,841
Facilities operations		8,406,704		7,266,544
Communications		244,519		345,732
Depreciation expense		33,002,043		34,153,042
Total operating expenses		394,990,078		391,642,355
Operating loss		(28,666,821)		(20,214,288)
Nonoperating revenues:				
Interest income		7,293,983		7,791,406
Other expenses		(44,727)		(146,457)
Total nonoperating revenues and expenses		7,249,256		7,644,949
Change in net position		(21,417,565)		(12,569,339)
Total net position - beginning of year		82,136,000		94,705,339
Total net position – end of year	$	60,718,435	$	82,136,000

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE

(COVERED CALIFORNIA)

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Receipts from enrollment fees	$ 367,383,870	$ 377,164,955
Payments to employees and for employee benefits	(128,553,624)	(111,615,422)
Payments to suppliers	(208,068,405)	(180,053,960)
Net cash provided by operating activities	30,761,840	85,495,573
Cash flows from noncapital financing activities:		
Other expenses	(44,727)	(146,457)
Net cash used in noncapital financing activities	(44,727)	(146,457)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(14,997,163)	(11,559,758)
Net cash used in capital and related financing activities	(14,997,163)	(11,559,758)
Cash flows from investing activities:		
Interest income	7,293,983	6,952,249
Net cash provided by investing activities	7,293,983	6,952,249
Net increase in cash and cash equivalents	23,013,933	80,741,607
Cash and cash equivalents – beginning of year	467,067,920	386,326,313
Cash and cash equivalents – end of year	$ 490,081,853	$ 467,067,920
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (28,666,821)	$ (20,214,288)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	33,002,043	34,153,042
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(6,687,781)	(2,676,227)
(Increase) decrease in other assets	861,366	1,990,166
Changes in pension obligations	15,834,449	14,236,956
Changes in OPEB obligations	(8,507,000)	40,606,000
Increase (decrease) in accounts payable	11,151,308	8,001,419
Increase (decrease) in accrued liabilities	58,917	55,698
Increase (decrease) in unearned revenue	7,748,394	8,413,115
Increase (decrease) in interfund loan payable	(1,024,951)	-
Increase (decrease) in compensated absences	3,728,992	951,507
Increase (decrease) in other liabilities	3,262,925	(21,815)
Net cash provided by operating activities	$ 30,761,840	$ 85,495,573
Supplemental disclosure of non-cash activities:		
Capital asset purchases included in accounts payable	$ 5,946,552	$ 6,392,475

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

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

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

(b) Basis of Presentation

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

(c) Revenue Recognition

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

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

In the individual market for the fiscal year 2019-20, Covered California charged the health insurance carriers a 3.75 percent assessment fee on total premiums paid for both medical and dental enrollees for the 2019 plan year (July to December) and 3.50 percent for the 2020 plan year (January to June). For the fiscal year 2018-19, health insurance carriers were charged a 4 percent assessment fee on total premiums paid for both medical and dental enrollees for the 2018 plan year (July to December) and 3.75 percent for the 2019 plan year (January to June).

For fiscal years 2019-20 and 2018-19, in the CCSB market, Covered California charged the health insurance carriers a 5.2 percent fee on total premiums paid for both medical and dental enrollees.

Covered California recognizes individual and CCSB enrollment fee revenues when effectuated enrollment occurs and the fees are earned from the health insurance carriers. All revenues received

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that are not part of the ongoing operations, such as interest income, are classified as nonoperating revenues.

(d) Cash and Cash Equivalents

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

(e) Receivables

Receivables represent the following for fiscal years 2019-20 and 2018-19 respectively: amounts owed from health insurance carriers for enrollment fees and small businesses for premiums in the amount of $46.8 million and $42.5 million, abatements of $3.6 million and $.2 million, and amounts due from the Surplus Money Investment Fund (SMIF) of $1.3 million and $2.3 million.

(f) Capital Assets

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*, Covered California has recorded internally generated computer software that went live on October 1, 2013. Intangible assets are considered internally generated if they are created or produced by Covered California or an entity contracted by Covered California, or if they are acquired from a third party but require more than minimal incremental effort on the part of Covered California to begin to achieve their expected level of service capacity. The preliminary project stage was completed in June 2012. Application development costs incurred during the fiscal year 2019-20 were $18.7 million and during fiscal year 2018-19 were $16.4 million. Depreciation of the intangible assets began on October 1, 2013 and totaled $ 31.3 million and $32.6 million for fiscal years 2019-20 and 2018-19, respectively.

(g) Accounts Payable

Accounts payable represents amounts owed by Covered California to third parties.

(h) Compensated Absences Payable

Vacation balances are accrued as a liability.

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(i) Use of Estimates

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

(j) Pensions

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

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

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

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

(l) Other Postemployment Benefits (OPEB)

During the year ended June 30, 2018, Covered California adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 revises existing standards for measuring and reporting other postemployment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to OPEB. This statement replaced the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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(2) Cash and Cash Equivalents

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

		2020		2019
State treasury	$	91,501,853	$	76,022,920
Surplus money investment fund (SMIF)		398,580,000		391,045,000
Total	$	490,081,853	$	467,067,920

As of June 30, 2020 and 2019, 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, 2020 and 2019, the allocation of the deposits held by Covered California in the SMIF was estimated as follows:

		2020		2019
U.S. Treasury Securities	$	208,796,814	$	191,352,818
Federal Agency Debt		79,660,617		82,049,076
Supranational Debentures		3,216,215		2,744,303
Bank Notes		394,717		2,227,646
Certificates of Deposit		52,105,173		66,736,576
Commercial Paper		30,468,530		25,018,789
Time Deposits		21,665,960		18,024,407
AB 55 and General Fund Loans		2,271,974		2,891,385
Total	$	398,580,000	$	391,045,000

(Continued)

The value of the deposits in the State Treasurer's pooled investment program, including the SMIF, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2020 and 2019, this difference was immaterial to the valuation of the deposits held by Covered California in the SMIF.

Covered California's share in the interest earnings of the PMIA is based on its ratio of dollar-day contributions to the total dollar-day investments of the PMIA. The overall return on investment for the PMIA was 1.934 percent for the year ended June 30, 2020 and 2.266 percent for the year ended June 30, 2019.

Additional disclosures regarding investment risks, interest rate risk, credit risk, custodial credit risk and concentration of credit risk, are presented in the financial statements of the State of California for the years ended June 30, 2020 and June 30, 2019.

(3) Capital Assets

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

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

(Continued)

Changes in capital assets for the year ended June 30, 2019 are as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Depreciable assets-development costs:				
Internally developed software	$ 279,064,221	$ 16,413,133	$ -	$ 295,477,354
Hardware	23,266,933	-	-	23,266,933
Licenses and purchased software	42,033,108	-	-	42,033,108
Total depreciable assets development costs	344,364,262	16,413,133	-	360,777,395
Depreciable capital assets:				
Office furniture and equipment	8,374,673	1,437,253	-	9,811,926
Leasehold improvements	3,043,330	101,847	-	3,145,177
Total depreciable capital assets	11,418,003	1,539,100	-	12,957,103
Less accumulated depreciation:				
Asset development costs	(175,518,615)	(32,611,942)	-	(208,130,557)
Office furniture and equipment	(5,323,677)	(1,094,021)	-	(6,417,698)
Leasehold improvements	(1,524,435)	(447,079)	-	(1,971,514)
Total accumulated depreciation	(182,366,727)	(34,153,042)	-	(216,519,769)
Total capital assets, net	$ 173,415,538	$ (16,200,809)	$ -	$ 157,214,729

(4) Leases

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

The future minimum lease payments under current operating leases as of June 30, 2020 are as follows:

For the year ending June 30:	
2021	$ 8,644,919
2022	8,113,126
2023	7,985,859
2024	7,770,870
Thereafter	22,935,156

Rental expense for operating leases totaled $7.4 million and $6.7 million for the years ended June 30, 2020 and 2019 respectively.

(5) Interfund Loan payable

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

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

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

Changes in the interfund loan payable for the year ended June 30, 2019 are as follows:

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

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

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

(Continued)

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

	Principal	Interest	Total
2020-21	$ 2,991,689	$ 216,311	$ 3,208,000
2021-22	2,702,000	506,000	3,208,000
2022-23	2,801,000	407,000	3,208,000
2023-24	2,915,000	293,000	3,208,000
2024-25	3,030,000	178,000	3,208,000
2025-26	1,872,360	408,329	2,280,689
Total	$ 16,312,049	$ 2,008,640	$ 18,320,689

(6) Retirement Planning and Other Postemployment Benefits

(a) Retirement Plan

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

	2020	2019
Valuation date (VD)	June 30, 2018	June 30, 2017
Measurement date (MD)	June 30, 2019	June 30, 2018
Measurement period (MP)	July 01, 2018 to June 30, 2019	July 01, 2017 to June 30, 2018

Plan Description, Benefits Provided, and Employees Covered

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

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

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

Contributions

Section 20814 (c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the Miscellaneous Plan measurement periods ended June 30, 2019 and June 30, 2018, the active employee contribution rate is 8 percent to 10 percent of annual pay for Tier 1 and 3.75 percent of annual pay for Tier 2.The employer's contribution rate for the Miscellaneous Plan Tier 1 and Tier 2 is 31.075 percent of annual payroll for the measurement period ended June 30, 2019 and 29.396 percent of annual payroll for the measurement period ended June 30, 2018. These rates reflect PERL Section 20683.2, which mandates that certain employees contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

Discount Rate

CalPERS prepared the GASB 68 Accounting Valuation Reports (AVRs) for the State of California for the five plans (including the State Miscellaneous Plan) in which the State participates. For both the June 30, 2019 and June 30, 2018 measurement dates, CalPERS utilized a discount rate of 7.15 percent, which includes the plans' administrative expenses.

(Continued)

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

The State Controller's Office (SCO) used a calculated percentage based on Covered California's share of the pensionable compensation to the State's total pensionable compensation amounts for the State Miscellaneous Plan, to provide Covered California's net pension liability and related GASB 68 accounting elements. For the June 30, 2019 measurement period (MP) and June 30, 2018 MP Covered California's calculated percentage for the State Miscellaneous Plan was 0.541209 percent and 0.517062 percent, respectively.

Covered California's net pension liability for the State Miscellaneous Plan was $162.4 million at the beginning of the June 30, 2019 MP and $182.0 million at the end of the MP. Covered California's net pension liability for the State Miscellaneous Plan was $176.0 million at the beginning of the June 30, 2018 MP and $162.4 million at the end of the MP.

As of the start of the measurement periods, July 1, 2018 and 2017, the net pension liability was $162,432,133 and $176,047,944, respectively.

For the measurement periods, June 30, 2019 and 2018 (the measurement date), Covered California incurred a non-cash pension expense of $40,183,169 and $34,778,237, respectively.

As of the measurement date of June 30, 2019 and 2018, Covered California had deferred outflows and deferred inflows of resources related to pensions as follows:

	2019	2018
Deferred Outflows of Resources		
Pension Contributions Subsequent to Measurement Date	$ 24,348,721	$ 20,541,282
Difference Between Expected and Actual Experiences	9,552,923	1,742,617
Change in Assumptions	7,668,484	14,652,250
Net Difference In Projected and Actual Earnings on Pension Plan Investment	-	1,678,059
Total	**$ 41,570,128**	**$ 38,614,208**
Deferred Inflows of Resources		
Difference Between Expected and Actual Experiences	$ (523,711)	$ (1,131,655)
Change in Assumptions	(3,818,743)	(5,385,490)
Net Difference In Projected and Actual Earnings on Pension Plan Investment	(1,355,647)	-
Total	**$ (5,698,101)**	**$ (6,517,145)**

(Continued)

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
2020	$	10,465,112
2021		(1,857,337)
2022		2,108,765
2023		806,766
Total	**$**	**11,523,306**

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liability as of the June 2019 measurement date was based on an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019. The total pension liability as of the June 2018 measurement date was based on an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018. Unless noted, both calculations were based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Amortization Method/Period:	The 2016 CalPERS Actuarial Amortization Policy specifies that all changes in liability due to plan amendments (other than golden handshakes which are amortized over 5 years), changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period with a 5 year ramp up at the beginning and a 5 year ramp down at the end of the amortization period. Commencing with the 2014 valuation, all new gains or losses are tracked, and the net unamortized gain or loss is amortized over a fixed 30-year period with a 5 year ramp up at the beginning and a 5 year ramp down at the end of the amortization period. Also, if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability. Finally, all plans are subject to a minimum employer contribution rate equal to the employer normal cost plus a 30-year amortization or surplus, if any.

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Asset Valuation Method:	Market Value of Assets
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:	For the 2018 valuation, the lesser of the contract cost of living adjustment or 2.50 percent until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50 percent thereafter. For the 2017 valuation, cost of living adjustment up to 2.00 percent until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50 percent thereafter.

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

All other actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

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

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

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

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

Change in Assumption

In 2019, there were no changes in assumption. In 2018, demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Assumptions December 2017. There were no changes to the discount rate.

(Continued)

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

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

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

The following presents the net pension liability of Covered California as of June 30, 2018, 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	$232,865,899	$162,432,133	$103,407,464

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 results pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes were used:

	2020	**2019**
Valuation date (VD)	June 30, 2019	June 30, 2018
Measurement date (MD)	June 30, 2019	June 30, 2018
Measurement period (MP)	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018

Plan Description, Benefits Provided, and Employees Covered

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

Healthcare and dental benefits may be provided to members depending on the date hired and the member's years of credited service. Postretirement health benefits include medical, prescription drug, and dental benefits and were previously funded on a pay-as-you-go basis. Effective July 1, 2018 (FY18-19), both the employer and the employee are pre-funding OPEB. Employer contributions for health premiums during fiscal years 2019-20 and 2018-19 maintained the 100/90 percent contribution formula established by Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of the weighted average excess of the two-party or family premium over the single premium for the health benefits of each of the retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The monthly contribution maximums for 2019-20 and 2018-19, respectively, were $734 and $725 for a single enrollee, $1,398 and $1,377 for an enrollee and one dependent, and $1,788 and $1,766 for an enrollee and two or more dependents. Dental premiums vary by plan and number of dependents. The contribution formulas are subject to approval and amendment by the legislature of the State. The actual amount of the contribution varies by employee type. If members are not fully vested, the healthcare and dental contributions will be prorated based on the years of service.

Contributions

Covered California paid approximately $12.9 million for postretirement health and dental benefits for retired members for the year ended June 30, 2020 and $14.3 million for the year ended June 30, 2019. For the measurement dates ended June 30, 2019 and 2018 respectively, Covered California's cash contributions were approximately $14.3 million and $13.9 million in total payments, which were recognized as a reduction to the OPEB liability.

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Net OPEB Liability

Covered California's net 2020 OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019. Covered California's net 2019 OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2018. The following actuarial methods and assumptions were used:

Valuation Date:	For 2020 report, June 30, 2019. For 2019 report, June 30, 2018.
Measurement Date:	For 2020 report, June 30, 2019. For 2019 report, June 30, 2018.
Actuarial Cost Method:	For both periods, entry age normal cost in accordance with the requirements of GASB Statement No. 75
Actuarial Valuation Method:	For both periods, market value of assets
Actuarial Assumptions:	
Discount rate	For the 2020 report, 6.75%, for the 2019 report, 7.00%.
Inflation	For the 2020 report, 2.25%, for the 2019 report 2.50%.
Salary increases	For both periods, varies by entry age and service
Investment rate of return	For the 2020 report, 6.75%, for the 2019 report 7.00%.
Mortality rate	For both periods, the probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Mortality rates include 15 years of projected mortality improvements using Scale 90% of scale MP 2016 published by the Society of Actuaries.
Pre-retirement turnover	For both periods, the pre-retirement turnover information was derived from data collected during 1997 to 2015 CalPERS Experience Study dated December 2017. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

(Continued)

Healthcare trend rates	The 2020 trend rates are based on actual premium increases from calendar 2019 to 2020. The PPO per capita claim cost is assumed to be 4.0% for Pre-Medicare costs and 4.0% for Post-Medicare costs. For 2021 and beyond an initial trend rate of 7.5% was used for Pre-Medicare and Post-Medicare costs, decreasing each year over the next six years to a rate of 4.5%, which remains at 4.5% for ten years until the ultimate rate of 4.25% is reached in 2037. The 2019 trend rates are based on actual premium increases from calendar 2018 to 2019. The PPO per capita claim cost is assumed to be 5.0% for Pre-Medicare costs and 4.0% for Post-Medicare costs. For 2020 and beyond an initial trend rate of 7.5% for Pre-Medicare costs, decreasing over the next six years until the ultimate rate of 4.5% is reached. For Post-Medicare costs, the trend rate is 8.0%, decreasing to 4.5% over the next seven years.
Retirement age	For both periods, the probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the 2019 and 2018 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%		

(Continued)

Discount Rate

The discount rates used to measure the total OPEB liability at June 30, 2019 and June 30, 2018 were 6.75 percent and 7.00 percent, respectively. The projection of cash flows used to determine the discount rate assumed that Agency contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in Assumptions

In 2019, the discount and interest rates were decreased from 7.00 percent to 6.75 percent. The inflation rate was decreased from 2.50 percent to 2.25 percent.

In 2018, demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Assumptions December 2017. The discount and interest rates were decreased from 7.28 percent to 7.00 percent. The inflation rate was decreased from 2.75 percent to 2.5 percent.

Changes in the Net OPEB Liability

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

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

(Continued)

The changes in the net OPEB liability for the measurement date of June 30, 2018 are as follows:

	Increase (Decrease)		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability (Asset)**
Balance at June 30, 2017	**$ 308,151,000**	**$ 3,000**	**$ 308,148,000**
Change in the year:			
Service cost	12,441,000	-	12,441,000
Interest on total OPEB liability	13,921,000	-	13,921,000
Difference between expected and actual experience	(28,300,000)	-	(28,300,000)
Employer Contributions-PayGo	575,000	8,529,000	(7,954,000)
Employer Contributions-Pre Funding	-	-	-
Employee Contributions	-	-	-
Changes of assumptions	(12,877,000)	-	(12,877,000)
Benefit payments	(8,529,000)	(8,529,000)	-
Investment Income	-	-	-
Proportionate Share Change and Allocation Basis Adjustment	41,380,000	(3,000)	41,383,000
Other	-	2,000	(2,000)
Net changes	**18,611,000**	**(1,000)**	**18,612,000**
Balance at June 30, 2018	**$ 326,762,000**	**$ 2,000**	**$ 326,760,000**

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

The following presents the net OPEB liability of Covered California as of June 30, 2019, calculated using the discount rate of 6.75 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.75 percent) or 1 percentage-point higher (7.75 percent) than the current rate:

Discount Rate -1% (5.75%)	Current Discount Rate (6.75%)	Discount Rate + 1% (7.75%)
$398,904,597	$338,695,000	$290,608,244

(Continued)

The following presents the net OPEB liability of Covered California as of June 30, 2018, calculated using the discount rate of 7.00 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 percent) or 1 percentage-point higher (8.00 percent) than the current rate:

Discount Rate -1% (6.00%)	Current Dicount Rate (7.00)%	Discount Rate + 1% (8.00%)
$385,448,804	$326,760,000	$279,930,535

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

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

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

The following presents the net OPEB liability of Covered California as of June 30, 2018, 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%	Current Health Cost Trend Rate	Health Cost Trend Rate + 1%
$285,029,840	$326,760,000	$380,216,620

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.

(Continued)

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

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

Covered California incurred a non-cash OPEB expense for the measurement period, June 30, 2019 (the measurement date) and June 30, 2018 (the measurement date) of $3,570,000 and $50,537,000, respectively.

As of the measurement date of June 30, 2019 and 2018, Covered California had deferred outflows and deferred inflows of resources related to OPEB as follows:

		2019		2018
Deferred Outflow of Resources				
OPEB Contributions Subsequent to Measurement Date	$	12,077,000	$	9,931,000
Change of Assumptions		10,416,000		-
Difference Between Expected and Actual Experience		263,000		527,000
Total	**$**	**22,756,000**	**$**	**10,458,000**
Deferred Inflow of Resources				
Change of Assumptions	$	(29,470,000)	$	(38,261,000)
Difference Between Expected and Actual Experience		(25,105,000)		(24,486,000)
Difference Between Expected and Actual Earnings Experience		(28,000)		-
Total	$	**(54,603,000)**	**$**	**(62,747,000)**

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

Measurement Period ended June 30:		Deferred Outflows/(Inflows) of Resources
2020	$	(10,238,000)
2021		(10,237,000)
2022		(10,237,000)
2023		(9,116,000)
Thereafter		(4,096,000)
Total	$	(43,924,000)

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.

(Continued)

(7) Commitments and Contingencies

As of June 30, 2020, Covered California has outstanding commitments of $69.4 million related primarily to information technology projects.

(8) Risk Management

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

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

(9) Subsequent Events

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

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

Covered California has evaluated all events through April 22, 2021, and noted no other items requiring disclosure in these financial statements.

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and June 30, 2019

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

	2015	2016	2017	2018	2019	2020
Covered California's Proportion of the Net Pension Liability	0.224583%	0.428616%	0.500055%	0.481857%	0.517062%	0.541209%
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	$ 182,041,545
Covered California's Covered Payroll	$ 22,502,642	$ 45,608,536	$ 55,957,084	$ 55,854,234	$ 63,362,515	$ 69,890,529
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%	260.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.17%	70.68%	66.81%	66.42%	71.83%	71.34%

(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 included any liability impact from plan changes which occurred after June 30, 2018. This applied to voluntary benefit changes as well as any offer of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Changes of Assumptions: In 2019 there were no changes. In 2018 demographic assumptions and inflation rates were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017 the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.75 percent (without a reduction for pension plan administrative expense). In 2014 amounts reported were based on the 7.75 percent discount rate.

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and 2019

SCHEDULE OF PLAN CONTRIBUTIONS PENSION

	2015	2016	2017	2018	2019	2020
Actuarially Determined Contribution	$ 11,090,990	$ 14,066,553	$ 14,920,905	$ 35,345,764	$ 20,541,282	$ 24,348,721
Contribution in Relation to the Actuarially Determined Contribution	(11,090,990)	(14,066,553)	(14,920,905)	(35,345,764)	(20,541,282)	(24,348,721)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 22,506,125	$ 45,608,536	$ 55,957,084	$ 55,854,234	$ 63,362,515	$ 69,890,529
Contributions as a Percentage of Covered-Employee Payroll	49.28%	30.84%	26.66%	63.28%	32.42%	34.84%

Notes to Schedule:

Valuation Date:	June 20, 2012	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll
Asset valuation method	Market value of assets
Inflation	2.63%
Payroll growth	2.88%
Investment rate of return (net of pension investment and administrative expenses; includes inflation)	7.25%
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997-2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period 1997-2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and 2019

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

	2018	2019	2020
Total OPEB Liability			
Service cost	$ 13,400,000	$ 12,441,000	$ 11,549,000
Interest on the total OPEB liability	11,022,000	13,921,000	12,881,000
Changes in benefit terms	-	-	-
Difference between expected and actual experience	-	(28,300,000)	(4,922,000)
Employer contributions	-	575,000	-
Changes in assumptions	(32,107,000)	(12,877,000)	11,618,000
Benefit payments	(7,060,000)	(8,529,000)	(9,177,000)
Proportionate Share Change and Allocation Basis Adjustment	-	41,380,000	(8,415,000)
Net change in total OPEB liability	**(14,745,000)**	**18,611,000**	**13,534,000**
Total OPEB liability - beginning	**322,896,000**	**308,151,000**	**326,762,000**
Total OPEB liability - ending (a)	**$ 308,151,000**	**$ 326,762,000**	**$ 340,296,000**
Plan Fiduciary Net Position			
Employer Contributions-PayGo	$ 7,063,000	$ 8,529,000	$ 9,177,000
Employer Contributions-Pre Funding	-	-	756,000
Employee Contributions	-	-	756,000
Net investment income	-	-	87,000
Benefit payments	(7,060,000)	(8,529,000)	(9,177,000)
Administrative expense	-	-	-
Proportionate Share Change and Allocation Basis Adjustment	-	(3,000)	-
Other	-	2,000	-
Net change in plan fiduciary net position	**3,000**	**(1,000)**	**1,599,000**
Plan fiduciary net position - beginning	**-**	**3,000**	**2,000**
Plan fiduciary net position - ending (b)	**$ 3,000**	**$ 2,000**	**$ 1,601,000**
Net OPEB Liability/(Assets) - ending (a) - (b)	**$ 308,148,000**	**$ 326,760,000**	**$ 338,695,000**
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.47%
Covered-employee payroll	$ 55,854,234	$ 85,878,598	$ 95,389,392
Net OPEB liability as a percentage of covered-employee payroll	551.70%	380.49%	355.07%

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

Notes to Schedule:

Changes in Assumptions: In 2019, the discount and interest rates were changed from 7.00 percent to 6.75 percent. The inflation rate was changed from 2.50 percent to 2.25 percent. In 2018, demographic assumptions were changed in accordance with the CalPERS Experience Study and Review of Assumptions of December 2017. The discount rate and interest rates were decreased from 7.28 percent to 7.00 percent. The inflation rate was decreased from 2.75 percent to 2.50 percent.

(Continued)

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2020 and 2019

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	$ 85,878,598	$ 95,389,392
Contributions as a percentage of covered-employee payroll	13.25%	11.56%	12.66%

(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 2019.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry age normal cost, level percent of pay
Actuarial Valuation Method	Market value of assets
Inflation	2.25%
Payroll Growth	2.50%
Investment Rate of Return	6.75%
Healthcare Cost-Trend Rates	Trend rates are based on actual premium increases from calendar 2019 to 2020. The PPO per capital claim costs is assumed to be 4.0% for Pre-Medicare costs and Post-Medicare costs. For 2021 and beyond an initial trend rate of 7.5% for Pre-Medicare and Post Medicare costs was used, decreasing over the next six years to a rate of 4.5%, which remains at 4.5 % for ten years until the ultimate rate of 4.25% is reached in 2037.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using Scale 90% of scale MP 2016 published by the Society of Actuaries.

(Continued)

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Health Benefit Exchange (Covered California) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Covered California's basic financial statements, and have issued our report thereon dated April 22, 2021

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify the following deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies: 2020-001; 2020-002.

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

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 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.*

Agency's Response to Findings

The Agency's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Covered California'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 Covered California's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Sacramento, California
April 22, 2021

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Loan Payable

Reference Number: 2020-001 (Significant Deficiency)

Condition:
The current year payment on the Loan was erroneously recorded as an expense rather than a reduction of the liability for the year ending June 30, 2020.

Criteria:
A reconciliation of outstanding debt instruments to the general ledger should be prepared and reviewed timely.

Cause of Condition:
During the normal course of business, Covered California properly made payment on the Loan Payable in a timely manner and erroneously recorded the transaction as an expense. In addition, during the year-end closing process the journal entry needed to reclassify the expense to a reduction of the liability was omitted from the trial balance provided to LSL.

Effect or Potential Effect of Condition:
The effect of this condition resulted in expenditures being overstated as well as liabilities being overstated in the financial statements by a total of $1,024,951; this was remedied through correcting journal entries.

Recommendation:
Loan payables should be evaluated periodically throughout the year to determine if there has been a proper reduction of the liability and that principal payments are not accounted for as expenses.

Management's Response and Corrective Action:
Covered California concurs with the finding and continues to improve its processes related to GAAP reporting. To ensure all necessary entries are correctly identified and booked to the trial balance and properly reflected in the financial statements, Covered California is implementing corrective actions and additional procedures for more thorough review of the interfund loan entries, including timely reconciliations of the outstanding balances.

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

Accounts Payable and Uncleared Collections

Reference Number: 2020-002 (Significant Deficiency)

Condition:
Covered California collects cash from both the individual market and the small business market. The small business market portion of the collections is due to agents and is properly accounted for in accounts payable. The trial balance provided to LSL erroneously included $11,576,705 of the individual market's portion of June's individual market collections alongside the small business collections reported in accounts payable.

Criteria:
Reconciliation procedures should be in place to properly differentiate accounting for the collection of receipts between the individual market and the small business market. In addition, collections from the individual market should not be recorded in accounts payable at fiscal year-end.

Cause of Condition:
Due to the Agency's conversion over to FI$Cal system change, there have been adjustments to the reports being run at fiscal year-end. The current year uncleared collections report was evaluated in a manner such that the individual market collections were grouped alongside the small business market collections. This evaluation resulted in an improper journal entry that added the individual market collections to the accounts payable balance.

Effect or Potential Effect of Condition:
The condition caused the accounts payable balance to be overstated because the individual market collections are earned by Covered California and not payable to other entities. This was remedied through properly evaluating the uncleared collections and posting correcting journal entries.

Recommendation:
Uncleared collections should be properly evaluated during the year-end close to determine which portion of the balance relate to individual market collections and which portion relate to small business market collections.

Management's Response and Corrective Action:
Covered California concurs with the finding and continues to improve its processes related to GAAP reporting. To ensure the accounts payable and the uncleared collections balances are properly adjusted and reflected in the financial statements, Covered California is implementing additional review procedures over the uncleared collections reports to correctly identify the receipts by each business market.