

CENCAL HEALTH

LOCAL. QUALITY. HEALTHCARE.

JUNE 30, 2022 AND 2021

FINANCIAL STATEMENTS



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

CenCal Health
Local. Quality. Healthcare.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report.....	1 - 3
Management’s Discussion and Analysis	4 - 9
Basic Financial Statements:	
Balance Sheets	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows.....	12
Notes to the Financial Statements.....	13 - 34
Required Supplementary Information:	
California Public Employees’ Retirement System – Schedule of CenCal Health’s Proportionate Share of the Net Pension Liability	35
California Public Employees’ Retirement System – Schedule of CenCal Health’s Contributions.....	36
Additional Information:	
Schedule of Revenues and Expenses per Member per Month.....	37
Schedule of Medical Expenses – Actual and Budget	38
Schedule of Administrative Expenses – Actual and Budget	39
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 <i>Government Auditing Standards</i>	40 – 41
Schedule of Findings and Responses.....	42 – 49



INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
CenCal Health**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CenCal Health as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise CenCal Health'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 CenCal Health, as of June 30, 2022 and 2021, 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.

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 CenCal Health 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 CenCal Health'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 the CenCal Health'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 CenCal Health'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 on pages 4 through 9, the California Public Employees' Retirement System - Schedule of CenCal Health's Proportionate Share of the Net Pension Liability on page 35 and the California Public Employees' Retirement System - Schedule of CenCal Health's Contributions on page 36 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 Information

Management is responsible for the other information included in the annual report. The other information included on pages 37 through 39 does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2022 on our consideration of CenCal Health'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 CenCal Health'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 CenCal Health's internal control over financial reporting and compliance.

Bartlett, Pringle & Wolf, LLP

Santa Barbara, California

October 14, 2022

CENCAL HEALTH

Local. Quality. Healthcare.

MANAGEMENT’S DISCUSSION AND ANALYSIS

The management discussion and analysis of CenCal Health is intended to provide readers and interested parties with an overview of the organization’s financial activities for the fiscal years ended June 30, 2022 and 2021. It should be reviewed in conjunction with CenCal Health’s financial statements and accompanying notes to enhance the reader’s understanding of CenCal Health’s financial performance.

ORGANIZATION

CenCal Health is an independent public agency organized by the County of Santa Barbara and the County of San Luis Obispo to operate a capitated, or prepaid, health care system for residents of both counties. CenCal Health was originally established in Santa Barbara County and expanded services into San Luis Obispo County in March of 2008.

CenCal Health currently administers and operates the following health care programs: Medi-Cal (Santa Barbara Health Initiative “SBHI” and San Luis Obispo Health Initiative “SLOHI”).

Since beginning operations in 1983, CenCal Health has created access to high quality health care for its members through contracts with local providers (physicians, clinics, hospitals, pharmacies, etc.); and coordinated care for its members through a primary care provider case management system, aided by numerous plan programs and activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management’s discussion and analysis, basic financial statements, and supplementary information. The basic financial statements include notes that explain in more detail some of the information presented in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of CenCal Health report financial information about CenCal Health using accounting methods in accordance with accounting principles generally accepted (GAAP) in the United States of America and governmental accounting and financial reporting standards.

The balance sheets include CenCal Health’s assets and liabilities, and provide information about the nature and amounts of investments in resources (assets) and the obligations to CenCal Health’s creditors (liabilities). It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of CenCal Health. The balance sheets also include deferred inflows and outflows of resources. A deferred outflow of resources represents a consumption of net position by CenCal Health that is applicable to a future reporting period. Conversely, a deferred inflow of resources is an acquisition of net position by CenCal Health that is applicable to a future reporting period.

Revenues and expenses are accounted for in the statements of revenues, expenses and changes in net position. These statements measure the success of CenCal Health’s operations over the past year and can be used to determine whether CenCal Health has successfully recovered all its costs through its capitation from the State of California, insurance premiums, other revenue sources, and the investment of funds.

CENCAL HEALTH

Local. Quality. Healthcare.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The final required financial statements are the statements of cash flows. The primary purpose of these statements is to provide information about CenCal Health's cash receipts and cash payments during the reporting period. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing and investing activities, and provide answers to questions such as, where did the cash come from, what was the cash used for, and what was the change in the cash balance during the year?

FINANCIAL ANALYSIS OF CENCAL HEALTH

Financial Highlights

The following are the significant highlights of CenCal Health's financial performance for the fiscal year ended June 30, 2022, representing fluctuations from June 30, 2021 to June 30, 2022:

- Combined financial results from all programs and activities show a year-to-date operating gain of \$25.1 million.
- Net asset position increased by \$25.1 million or 14.7%.
- Total revenues increased 12.9% from \$1,049.1 million to \$1,184.4 million.
- Total expenses increased 7.9% from \$1,074.6 million to \$1,159.3 million. Within this amount, administrative expenses decreased 39.2% from \$50.8 million to \$30.9 million.
- Available cash and cash equivalents increased 26.0% from \$217.0 million to \$273.3 million.
- Member enrollment increased from 201,721 to 219,233 covered lives as of June 30th, 2021 and 2022, respectively.

Net Position

Over time, increases or decreases in CenCal Health's net position are indicators of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation should also be considered for such analysis.

CENCAL HEALTH
Local. Quality. Healthcare.
MANAGEMENT’S DISCUSSION AND ANALYSIS

A summary of CenCal Health’s balance sheets are presented in **Table A-1**.

TABLE A-1
Condensed Balance Sheets
(In millions)

	FY 2022	FY 2021	FY 2020	2022-2021 Variance		2021-2020 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
ASSETS:							
Current and other assets	\$ 641.7	\$496.5	\$ 484.7	\$ 145.2	29.2%	\$ 11.8	2.4%
Capital assets	29.6	30.4	30.9	(0.8)	-2.6%	(0.5)	(1.6)%
Deferred outflow of resources	6.7	6.3	5.8	0.4	6.3%	0.5	8.6%
Total assets	678.0	533.2	521.4	144.8	27.2%	11.8	2.3%
LIABILITIES:							
Medical claims payable	95.5	82.5	76.8	13.0	15.8%	5.7	7.4 %
Other liabilities	386.8	279.8	248.1	107.0	38.2%	31.7	12.8 %
Deferred inflow of resources	0.2	0.7	0.7	(0.5)	-71.4%	0.0	0.0 %
Total liabilities	482.5	363.0	325.6	119.5	32.9%	37.4	11.5%
NET POSITION:							
Invested in capital assets	29.6	30.4	30.9	(0.8)	-2.6%	(0.5)	-1.6%
Unrestricted	165.6	139.5	164.5	26.1	18.7%	(25.0)	-15.2%
Restricted	0.3	0.3	0.3	0.0	0.0%	0.0	0.0%
Total net position	195.5	170.2	195.7	25.3	14.9%	(25.5)	-13.0%
Total liabilities and net position	\$ 678.0	\$533.2	\$ 521.3	\$ 144.8	27.2%	\$ 11.9	2.3%

Current and other assets increased by \$145.2 million primarily due to an increase within accounts receivable due from the DHCS. Receivables due from the DHCS increased by \$83.5 million as a result of members increased and CalAIM initiative programs. These new programs resulted in new and additional revenue components within the health plan’s overall capitation rate(s). Receivables associated with reinsurance also increased by \$2.4 million due to a hand full of high-cost members exceeding the deductible amount which triggers reinsurance dollars back to the health plan. Cash and cash equivalents increased, further due to reduction of DHCS recoupment of \$2.9 million, which is primarily due to a payment to DHCS associated with the 85% MLR requirement for the period covering July 1, 2017 through June 30, 2022.

Capital assets decreased by a net amount of \$.8 million primarily as a result of removing old equipment completely depreciated.

Medical claims liabilities as of June 30, 2022 are at \$95.5 million, an increase of \$13.0 million. The combination of various provider reimbursement rate increases, utilization rate per 1,000 increases, and the WCM population contributes to the greater value of claim liabilities.

CENCAL HEALTH

Local. Quality. Healthcare.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other liabilities increased by \$107.0 million due to several events: (a) Accrued for the DHCS recoupment MLR for Prop 56 payment from July 2019 to June 2022, (b) DHCS programs for hospitals and other providers were retroactively implemented by DHCS and health plan capitation rates were correspondingly adjusted. This resulted in the recording of the liability that will be paid out to qualifying hospitals and providers. There is a direct correlation between the increase in these liabilities and the increase in accounts receivables, as noted with the description within current and other assets.

While the balance sheets show the change in net position, the statements of revenues, expenses and changes in net position provide answers as to the nature and scope of these changes.

Table A-2 indicates the increase in net position during 2022 is attributable to an operating income of \$25.1 million.

TABLE A-2
Condensed Statements of Revenues,
Expenses and Changes in Net Position
(In millions)

	FY 2022	FY 2021	FY 2020	2022-2021 Variance		2021-2020 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
REVENUES:							
Capitation	\$1,179.8	\$1,047.6	\$ 920.4	\$ 132.2	12.6%	\$ 127.2	13.8%
Other revenue	5.9	0.5	0.7	5.4	1080.0%	(0.2)	-28.57%
Interest and realized and unrealized gain (loss)	(1.3)	1.0	4.7	(2.3)	-230.0%	(3.7)	-78.7%
Total revenues	1,184.4	1,049.1	925.8	135.3	12.9%	123.3	13.3%
EXPENSES:							
Medical	1,038.3	957.8	868.7	80.5	8.4%	89.1	10.3%
Administrative	43.7	50.8	49.6	(7.1)	-14.0%	1.2	2.4%
MCO tax	77.3	66.0	29.3	11.3	17.1%	36.7	125.3%
Total expenses	1,159.3	1,074.6	947.6	84.7	7.9%	127.0	13.4%
Operating gain (loss)	25.1	(25.5)	(21.8)	50.6	-198.4%	(3.7)	17.0%
Beginning - net position	170.2	195.7	217.5	(25.5)	-13.0%	(21.8)	-10.0%
Ending - net position	\$ 195.3	\$ 170.2	\$ 195.7	\$ 25.1	14.7%	\$ (25.5)	-13.0%

Capitation revenue increased \$132.2 million primarily associated with the increase in members and additional components of capitation revenue correlated to the new DHCS programs such as CalAIM initiatives programs, COVID-19, Prop 56, hospitals and other providers.

CENCAL HEALTH

Local. Quality. Healthcare.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Medical expenses increased by \$80.5 million, a 8.4% increase. The primary medical expense categories that incurred increases from 2021 were within physician services, pharmacy (carve out received delay from January 1, 2021 to January 1, 2022), maternity carve in effective January 2021, hospital services, long-term care services (received a rate increase of 10% from DHCS effective April 1, 2021 due to COVID-19), mental and behavioral health services and other medical care services such as laboratory (due to COVID-19 tests) services and medical transportation. Also contributing to the increase is the accrual of the future payments that will be made to qualifying providers under the new programs implemented by the DHCS.

Administrative expenses decreased \$7.1 million. The health plan incurred a material vacancy rate during the audit year as the recruitment of qualified staff remains a challenge, especially for staff to support DHCS CalAIM initiative programs. In particular the CalPERS retirement pension cost resulted in salary and benefit costs decreasing by \$10 million compared to 2021 due to a reduction in our unfunded pension liability

MCO Tax expense increased by \$11.3 million from 2021. The DHCS established the health plan's tax, specific for the period covering 2021-2022, at \$77.3 million.

SUMMARY OF CASH FLOW ACTIVITIES

Table A-3 below shows a summary of the major sources and uses of cash and cash equivalents for the current and prior fiscal year. Cash and cash equivalents are considered highly liquid investments.

TABLE A-3
Summary of Cash Flow Activities
(In millions)

	FY 2022	FY 2021	FY 2020	2022-2021 Change	2021-2020 Change
Cash flow from operating activities	\$ 55.9	\$ (2.3)	\$ (46.4)	\$ 58.2	\$ 44.1
Cash flow from capital and related financing activities	(0.5)	(0.7)	(0.8)	0.2	0.1
Cash flow from investing activities	0.9	(9.0)	3.3	9.9	(12.3)
Net increase (decrease) in cash and cash equivalents	56.3	(12.0)	(43.9)	68.3	31.9
Cash and cash equivalents					
Beginning of year	217.0	229.0	272.9	(12.0)	(43.9)
End of year	<u>\$ 273.3</u>	<u>\$ 217.0</u>	<u>\$229.0</u>	<u>\$ 56.3</u>	<u>\$ (12.0)</u>

Cash provided by operating activities increased by \$58.2 million primarily due to the combination of these three items: (i) \$13.0 million greater in payments for medical costs and (ii) \$7.1 million lesser in expenditures for administrative costs and (iii) \$65.2 million greater cash received associated with other revenue arrangements, such as Hospital Quality Assurance Fees (HQAF) during 2022 compared to 2021.

CENCAL HEALTH
Local. Quality. Healthcare.
MANAGEMENT’S DISCUSSION AND ANALYSIS

CenCal Health’s excess cash funds (the amount above which is needed to meet immediate operational needs) are invested in the State of California’s Local Agency Investment Fund (“LAIF”) and California Investment Trust (“CalTRUST”), which offer competitive market interest rate returns with minimal risk.

FORECAST FOR FISCAL YEAR 2022-2023

For July 2022 to December 2022, CenCal Health is projecting its Medi-Cal population with a target of 225,500 members as of December 31, 2022.

The July 2022 – December 2022 budget is as follows (in millions of dollars):

Total revenues	\$ 542.2
Medical expenses	467.4
Administrative expenses	34.1
MCO tax expense	<u>40.3</u>
Operating income	<u><u>\$ 0.4</u></u>

There are several new DHCS initiatives adopted within the state’s fiscal year 2023 budget which will tend to reduce health plan revenue. The financial impact of several of these initiatives will not be known for a few more months dependent on when the state releases details of the initiatives.

**CENCAL HEALTH
Local. Quality. Healthcare.
BALANCE SHEETS
JUNE 30, 2022 and 2021**

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash and cash equivalents (Notes 2 and 3)	\$ 273,278,992	\$ 216,907,692
Accounts receivable (Note 2):		
State of California:		
Capitation	349,388,921	265,880,959
Reinsurance	2,372,000	-
Other	559,717	1,394,165
Total accounts receivable	352,320,638	267,275,124
Prepaid expenses and other assets	1,911,642	1,414,272
Net pension asset (Note 8)	1,346,155	-
Total current assets	628,857,427	485,597,088
CAPITAL ASSETS - Net (Note 4)	29,574,524	30,376,568
LEASE ASSETS (Note 7)	1,601,607	-
SHARE APPRECIATION LOAN	300,000	300,000
RESTRICTED CERTIFICATE OF DEPOSIT (Note 10)	300,000	300,000
RESTRICTED CORPORATE OWNED LIFE INSURANCE (Note 17)	10,516,786	10,238,556
DEPOSITS	88,386	105,663
DEFERRED OUTFLOW OF RESOURCES:		
Deferred pensions (Note 8)	6,712,692	6,274,156
TOTAL	\$ 677,951,422	\$ 533,192,031
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 7,629,868	\$ 8,240,452
Accrued salaries and related benefits	4,487,626	3,982,887
Accrued MCO tax (Note 13)	23,315,088	17,483,579
Accrued Pooled directed payment (Note 16)	198,415,850	123,791,000
Accrued pass-thru IGT and HQAF (Notes 12 and 15)	78,310,265	56,404,946
Accrued BHI and VRP	1,016,827	-
Medical claims payable (Note 5)	95,547,000	82,536,974
Distributions payable (Note 6)	11,247,000	10,215,000
Accrued DHCS Revenue Recoup - 85% MLR (Note 14)	54,408,482	51,551,046
Lease liability, current portion (Note 7)	406,052	-
Unearned revenue	6,412,173	-
Net pension liability (Note 8)	-	8,125,247
Total current liabilities	481,196,231	362,331,131
OTHER LIABILITIES		
Lease liability, net of current portion (Note 7)	1,272,578	-
TOTAL LIABILITIES	482,468,809	362,331,131
COMMITMENTS AND CONTINGENCIES (Note 7)		
DEFERRED INFLOW OF RESOURCES:		
Deferred pensions (Note 8)	217,489	651,019
NET ASSETS:		
Invested in capital assets, net of related debt (Note 2)	29,574,524	30,376,568
Restricted (Notes 2 and 10)	300,000	300,000
Unrestricted (Note 2)	165,390,600	139,533,313
Total net assets	195,265,124	170,209,881
TOTAL	\$ 677,951,422	\$ 533,192,031

See accompanying notes

CENCAL HEALTH
Local. Quality. Healthcare.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:		
Capitation (Note 13)	\$ 1,179,783,621	\$ 1,047,554,205
Other	5,930,286	500,816
Total operating revenues	<u>1,185,713,907</u>	<u>1,048,055,021</u>
OPERATING EXPENSES:		
Medical Expenses:		
PCP capitation, incentives and other	35,185,564	33,108,270
Physician services	167,766,661	169,066,645
Pharmaceuticals	84,283,858	157,553,080
Hospital services	277,797,515	220,353,099
Long-term care services	128,573,151	109,594,938
Mental and behavioral health	45,188,203	36,824,604
Other medical care	301,821,727	230,552,157
Medical cost recoveries - net (Note 2)	<u>(2,307,272)</u>	<u>747,018</u>
Total medical related	<u>1,038,309,407</u>	<u>957,799,811</u>
Administrative expenses:		
Salaries and fringe benefits	26,916,481	34,159,073
Contract services	8,353,448	9,359,340
Travel and transportation	65,853	14,346
Rent and occupancy	773,189	1,161,252
Office supplies and minor equipment	438,362	317,507
Data communications	641,323	703,162
Postage and printing	758,487	558,294
Equipment and software maintenance	85,609	40,067
Depreciation and amortization	1,706,881	1,160,272
Other	<u>3,971,705</u>	<u>3,367,756</u>
Total administrative expenses	<u>43,711,338</u>	<u>50,841,069</u>
MCO tax expense (Note 13)	<u>77,260,350</u>	<u>65,934,315</u>
Total operating expenses	<u>1,159,281,095</u>	<u>1,074,575,195</u>
OPERATING INCOME (LOSS)	26,432,812	(26,520,174)
NON-OPERATING REVENUES		
Interest income	900,960	1,257,929
Unrealized loss	<u>(2,231,808)</u>	<u>(291,529)</u>
Total non-operating revenue	<u>(1,330,848)</u>	<u>966,400</u>
TOTAL REVENUES GREATER (LESS) THAN EXPENSES	<u>25,101,964</u>	<u>(25,553,774)</u>
NET POSITION, BEGINNING OF YEAR	170,209,881	195,763,655
Cumulative effect of change in accounting principle (Note 7)	<u>(46,721)</u>	
NET POSITION, END OF YEAR	<u>\$ 195,265,124</u>	<u>\$ 170,209,881</u>

See accompanying notes

CENCAL HEALTH
Local. Quality. Healthcare.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from capitation and premium arrangements	\$ 1,025,840,115	\$ 1,038,965,597
Cash received from other revenue arrangements	85,732,536	4,120,215
Cash paid for medical related expenses	(917,425,994)	(904,397,163)
Cash paid for MCO tax expense	(71,428,841)	(78,754,876)
Cash paid for general and administrative expenses	(66,757,548)	(62,231,042)
	<u>55,960,268</u>	<u>(2,297,269)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property and equipment	(489,928)	(668,025)
	<u>(489,928)</u>	<u>(668,025)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received (paid) for interest	900,960	1,257,929
Cash paid for company owned life insurance	-	(10,000,000)
Cash paid for shared appreciation loan	-	(300,000)
	<u>900,960</u>	<u>(9,042,071)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	56,371,300	(12,007,365)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	216,907,692	228,915,057
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 273,278,992	\$ 216,907,692
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	\$ 26,432,812	\$ (26,520,174)
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,706,881	1,160,272
Interest income for company owned life insurance	(278,230)	(238,556)
Unrealized loss on investments, net	(2,231,808)	(291,529)
Changes in assets and liabilities:		
Accounts receivable - net	(85,045,514)	(13,281,513)
Prepaid expenses and other assets	(497,370)	(10,842)
Deposits	17,277	4,343
Deferred outflow of resources	(438,536)	(467,390)
Accounts payable and accrued expenses	(610,584)	2,695,620
Accrued salaries and related benefits	504,739	810,505
Accrued MCO tax	5,831,509	(12,820,561)
Accrued Pass-Thru for IGT and HQAF	21,905,319	(16,903,634)
Accrued BHI and VRP	1,016,827	-
Accrued Pooled Directed Payment	74,624,850	48,204,000
Medical claims payable	13,010,026	5,776,974
Distributions payable	1,032,000	1,285,000
Accrued DHCS Revenue Recoup - 85% MLR	2,857,436	8,229,900
Net pension liability	(8,125,247)	116,265
Net pension asset	(1,346,155)	-
Lease assets	(2,063,237)	-
Lease liability	1,678,630	-
Unearned revenue	6,412,173	-
Deferred inflow of resources	(433,530)	(45,949)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 55,960,268	\$ (2,297,269)

See accompanying notes

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Organization

Santa Barbara San Luis Obispo Regional Health Authority dba CenCal Health, formerly Santa Barbara Regional Health Authority, is an independent public agency organized by the County of Santa Barbara and the County of San Luis Obispo to operate a Medi-Cal program on a capitated, or prepaid, health care system for residents of Santa Barbara County and San Luis Obispo County. CenCal Health receives approximately 99% of its revenue from this program.

The prepaid system was authorized by legislation in March 1982, and CenCal Health subsequently entered into a contract with the Department of Health Services of the State of California (the "State") that was to expire on June 30, 1986. The contract with the State is routinely extended with the current contract expiring on December 31, 2023.

Note 2 - Summary of Significant Accounting Policies

A) Basis of Accounting

CenCal Health is a governmental health insuring organization and, accordingly, follows principles as prescribed by the Governmental Accounting Standards Board ("GASB") and the provisions of the American Institute of Certified Public Accountants Audit and Accounting Guide, *Health Care Organizations*. CenCal Health uses the accrual basis of accounting in accordance with provisions for proprietary fund types.

B) Net Position

Net position is classified into three components:

Invested in capital assets, net of related debt

This component of net position consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings, if any, that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted

This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

C) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, investments in the State Treasurer's Local Agency Investment Fund ("LAIF"), investments in Investment Trust of California ("CalTRUST") and other short-term, highly liquid securities with original maturities of three months or less. The LAIF is a voluntary program created by statute as an investment alternative for California's local governments and special districts. The carrying value of cash and cash equivalents approximates the fair value due to their short-term nature. CalTRUST is a California joint powers authority established to consolidate investment activities for public agencies.

D) Basis of Accounting for Receivables

Accounts receivable are carried at their estimated collectible amount. Management evaluates receivables for collectability and records an allowance for any amounts estimated to be uncollectible.

E) Capital Assets

Capital assets are recorded at historical cost less accumulated depreciation (see Note 4). Depreciation is computed on the straight-line method over the estimated useful lives of the various classes of assets or the lease term, whichever is less, as follows:

Building	30 years
Office furniture and fixtures	5 years
Computer equipment and software	3 years
Leasehold improvements	5 years or lease term, if less

F) Revenue Recognition

Under the contract with the State, Medi-Cal revenues are recognized based on the estimated number of eligible enrollees per month, times the contracted monthly capitation rate. Capitation revenues are paid monthly in arrears. Membership adjustments are paid by the State in the month that a member was retroactively eligible for any previous months. Adjustments to revenue due to changes in estimated membership by CenCal Health are recognized currently. Revenue is recorded in the month in which eligible enrollees are entitled to health care services.

G) Medical Related Claims Payable and Expenses

CenCal Health pays certain contracting health care providers, mostly primary care physicians, pursuant to capitation arrangements under which a provider agrees to supply all covered services for a monthly fixed fee. Capitation arrangements represent full payment for services and are not subject to retroactive adjustment of claims. CenCal Health withholds 20% to 40% of the monthly capitation payments for an incentive pool. (See Note 5.) For certain services not covered by the capitation fees, providers bill CenCal Health as services are provided to enrollees pursuant to fee-for-service arrangements. Fee-for-service

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

G) Medical Related Claims Payable and Expenses (Continued)

arrangements result in claims by providers that are billed subsequent to services being rendered. Medical claims payable include the liability for claims received and unpaid and a provision for claims incurred but not reported.

The provision for claims incurred but not reported is established using a historical analysis of the claims volume and the average time lag between the date the claim is incurred and the date that is reported to CenCal Health.

Medical cost recoveries consist of reinsurance recoveries and recoveries from third parties and Medicare. CenCal Health is contracted with a private reinsurance carrier to mitigate risk associated with high-cost hospital admissions incurred within its Medi-Cal programs. Reinsurance recovery amounts are based on amounts paid by CenCal Health in excess of a \$1,250,00 deductible for Medi-Cal hospital admissions for the year ended June 30, 2022 and 2021. Reinsurance recoveries, the reinsurance premium cost, and recoveries from third parties and Medicare are reported as reductions of medical expenses.

CenCal Health reassesses the profitability of the Medi-Cal contract for providing health insurance coverage to the members when current operating results or forecasts indicate probable future losses. CenCal Health establishes a premium deficiency reserve in current operations to the extent that the sum of expected future medical costs, claim adjustment expenses, and maintenance costs exceeds related future premiums under contract without consideration of investment income. Losses recognized as a premium deficiency result in a beneficial effect in subsequent periods as operating losses under these contracts are charged to the liability previously established. There were no premium deficiency liabilities recorded at June 30, 2022 and 2021.

H) Restricted Certificates of Deposit

Restricted certificates of deposit of \$300,000 at June 30, 2022 and 2021, are maintained under terms and conditions of CenCal Health's Knox-Keene license.

I) Income Taxes

Taxes on income are not required, as CenCal Health is a special purpose organization created by an act of the California State Legislature.

J) Concentrations of Credit Risk

CenCal Health contracts with the State of California to provide health care services to Medi-Cal eligible recipients under the Santa Barbara Health Initiative ("SBHI") and San Luis Obispo Health Initiative ("SLOHI"). Revenues generated from these contracts accounted for approximately 99% of total revenues in the years ended June 30, 2022 and 2021.

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

K) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenues and expenses during the reporting period. CenCal Health's principal areas that include estimates are depreciation, receivables including reinsurance and retroactive capitation receivables, DHCS revenue recoup, PCP incentive pool, medical claims payable, and net pension liability. Actual results could differ from those estimates.

L) Statements of Revenues, Expenses and Changes in Net Position

All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the statements of revenues, expenses and changes in net position. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from exchange transactions, if any, or investment income.

M) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of CenCal Health's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N) Governmental Accounting Standards Board (GASB) Statements – Recent Updates

Statement No. 87 *Leases* increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This accounting guidance is effective for fiscal years beginning after June 15, 2021. The adoption of this standard did not have a material impact on the financial statements. The cumulative affect of applying this statement was reported as a \$46,721 adjustment to beginning net assets.

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

O) Governmental Accounting Standards Board (GASB) Statements – Future Updates

Statement No. 96, *Subscription-Based Information Technology Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This accounting guidance is effective for fiscal years beginning after June 15, 2022 and management is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

Note 3 - Cash and Investments

At June 30, 2022 and 2021, CenCal Health had the following cash and investments on hand:

	<u>2022</u>	<u>2021</u>
Cash in banks and on hand	\$ 137,368,557	\$ 79,274,716
Restricted certificate of deposit	300,000	300,000
Local Agency Investment Fund	26,528,835	26,454,972
California Investment Trust	<u>109,381,600</u>	<u>111,178,004</u>
Total cash and investments	<u>\$ 273,578,992</u>	<u>\$ 217,207,692</u>

Investments Authorized by CenCal Health's Investment Policy

CenCal Health's investment policy authorizes surplus funds to be invested as specified in Government Code Sections 53601 and 53609. In addition, the investment policy stipulates that funds be held through the Local Agency Investment Fund (LAIF) or deposited for safekeeping in State or National banks or State or Federal savings and loan associations. CenCal Health's policy does not contain any specific provisions intended to limit exposure to interest rate risk, credit risk and concentration of credit risk.

Investment in Local Agency Investment Fund (LAIF)

LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of CenCal Health's investment in this pool is reported in the accompanying financial statements at amounts based on CenCal Health's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. LAIF invests some of its portfolio in derivatives. Detailed information on derivative investments held by this pool is not readily available.

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Cash and Investments (Continued)

California Investment Trust (CalTRUST)

CalTrust is a California joint powers authority and public agency established under the provisions of Title 1, Division 7, Chapter 5 of the California Government Code (the “Joint Exercise of Powers Act”), to provide public agencies with consolidated investment activities. CalTrust has four pools, money market account, short-term, medium-term, and long-term. CenCal Health has deposits in the Short-Term Fund and the Medium-Term Fund for the years ended June 30, 2022 and 2021. CenCal Health’s investment in these pools are reported in the accompanying financial statements using net asset value as a practical expedient as reported by CalTrust.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, CenCal Health will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized.

The California Government Code requires California banks and savings and loans associations to secure CenCal Health's deposits by pledging government securities, which equal at least 110% of CenCal Health's deposits. California law also permits financial institutions to secure CenCal Health's deposits by the pledging of first trust deed mortgage notes in excess of 150% of CenCal Health's deposits. CenCal Health may waive collateral requirements for deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC).

None of CenCal Health's cash deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for investments is the risk that, in the event of the failure of the issuer of an investment, CenCal Health will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The California Government Code and CenCal Health's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities and does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools. Investments in LAIF are not rated by a national rating agency.

For the years ended June 30, 2022 and 2021, the CalTrust Short-Term Fund was rated AAf/S1+. The CalTrust Medium Term Fund was rated AA-f/S1 and A+f/S1 for the years ended June 30, 2022 and 2021, respectively.

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. CenCal Health did not have any investments that are considered highly sensitive to changes in interest rates at June 30, 2022 and 2021.

As of June 30, 2022 and 2021, CenCal Health had the following investments:

<u>Investment Type</u>	June 30, 2022				
	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Local Agency Investment Fund	\$ 26,528,835	\$ 26,528,835	\$ -	\$ -	\$ -
CalTrust - Short - Term Fund	73,221,872	73,221,872	-	-	-
CalTrust - Medium - Term Fund	36,159,728	-	36,159,728	-	-
Total Investments	<u>\$ 135,910,435</u>	<u>\$ 99,750,707</u>	<u>\$ 36,159,728</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Investment Type</u>	June 30, 2021				
	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Local Agency Investment Fund	\$ 26,454,972	\$ 26,454,972	\$ -	\$ -	\$ -
CalTrust - Short - Term Fund	73,723,748	73,723,748	-	-	-
CalTrust - Medium - Term Fund	37,454,256	-	37,454,256	-	-
Total Investments	<u>\$ 137,632,976</u>	<u>\$ 100,178,720</u>	<u>\$ 37,454,256</u>	<u>\$ -</u>	<u>\$ -</u>

At June 30, 2022 and 2021, no investments were measured at fair value. Investments and related valuation methodology are included below at June 30, 2022 and 2021, respectively.

	June 30, 2022		
	Total	Amortized Cost	Net Asset Value
LAIF	\$ 26,528,835	\$ 26,528,835	\$ -
CalTrust - Short - Term Fund	73,221,872	-	73,221,872
CalTrust - Medium - Term Fund	36,159,728	-	36,159,728
Total Investments	<u>\$ 135,910,435</u>	<u>\$ 26,528,835</u>	<u>\$ 109,381,600</u>

	June 30, 2021		
	Total	Amortized Cost	Net Asset Value
LAIF	\$ 26,454,972	\$ 26,454,972	\$ -
CalTrust - Short - Term Fund	73,723,748	-	73,723,748
CalTrust - Medium - Term Fund	37,454,256	-	37,454,256
Total Investments	<u>\$ 137,632,976</u>	<u>\$ 26,454,972</u>	<u>\$ 111,178,004</u>

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for CenCal Health's investments measured at NAV:

Investments Measured at NAV	June 30, 2022			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Short - Term Fund	\$ 73,221,872	-	Daily	None
Medium - Term Fund	36,159,728	-	Monthly	None
Total	<u>\$ 109,381,600</u>	<u>-</u>	<u>-</u>	<u>-</u>

Investments Measured at NAV	June 30, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Short - Term Fund	\$ 73,723,748	-	Daily	None
Medium - Term Fund	37,454,256	-	Monthly	None
Total	<u>\$ 111,178,004</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Short-Term portfolio provides liquidity on an overnight basis and is designed to have relatively low Net Asset Value (NAV) volatility while providing returns higher than are available in money market funds. The duration is longer than the money market fund and is targeted closer to one year. The Short-Term Fund invests in all sectors allowed by the California Investment code.

The Medium-Term portfolio is targeted toward local municipal assets with a longer time horizon than those in the Short-Term Account. The fund offers monthly liquidity due to the nature of the fund and the participants. The duration is longer than the short term portfolio and is targeted closer to two years. This provides the ability to achieve higher returns but does increase the interest rate risk to participants. The Medium-Term Fund invests in all sectors allowed by the California Investment code.

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 4 - Capital Assets

A summary of changes in capital assets during 2022 and 2021 is as follows:

	Beginning Balance 2022	Additions	Deletions	Ending Balance 2022
Office furniture and fixtures	\$ 3,106,345	\$ -	\$ -	\$ 3,106,345
Computer equipment and software	5,374,199	16,480	-	5,390,679
Building	20,463,094	-	-	20,463,094
Land	10,100,418	-	-	10,100,418
Leasehold improvements	<u>1,253,020</u>	<u>473,450</u>	-	<u>1,726,470</u>
Total capital assets	40,297,076	489,930	-	40,787,006
Less accumulated depreciation and amortization	<u>(9,920,508)</u>	<u>(1,291,974)</u>	-	<u>(11,212,482)</u>
Net capital assets	<u>\$ 30,376,568</u>	<u>\$ (802,044)</u>	<u>\$ -</u>	<u>\$ 29,574,524</u>

	Beginning Balance 2021	Additions	Deletions	Ending Balance 2021
Office furniture and fixtures	\$ 2,900,482	\$ 205,863	\$ -	\$ 3,106,345
Computer equipment and software	4,912,037	471,795	(9,633)	5,374,199
Building	20,463,094	-	-	20,463,094
Land	10,100,418	-	-	10,100,418
Leasehold improvements	<u>1,253,020</u>	<u>-</u>	<u>-</u>	<u>1,253,020</u>
Total capital assets	39,629,051	677,658	(9,633)	40,297,076
Less accumulated depreciation and amortization	<u>(8,760,236)</u>	<u>(1,160,792)</u>	<u>520</u>	<u>(9,920,508)</u>
Net capital assets	<u>\$ 30,868,815</u>	<u>\$ (483,134)</u>	<u>\$ (9,113)</u>	<u>\$ 30,376,568</u>

Note 5 - Medical Claims Payable

Medical claims payable at June 30, 2022 and 2021 are comprised of the following:

	2022	2021
Claims payable or pending approval	\$ 32,981,270	\$ 26,686,892
Provisions for claims incurred but not yet reported	<u>62,565,730</u>	<u>55,850,082</u>
	<u>\$ 95,547,000</u>	<u>\$ 82,536,974</u>

The cost of health care services is recognized in the period in which they are provided and includes an estimate of the cost of services that have been incurred but not yet reported. CenCal Health estimates accrued claims payable based on historical claims payments and other relevant information. Estimates are continually monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations.

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Medical Claims Payable (Continued)

Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims paid is dependent on future developments, management is of the opinion that the accrued claims payable is adequate.

The following is a reconciliation of medical claims payable for the years ended June 30, 2022 and 2021:

	2022	2021
Beginning balance	\$ 82,536,974	\$ 76,760,000
Incurred:		
Current Year	675,897,202	666,874,039
Prior Year	(10,273,312)	(12,547,968)
Total	665,623,890	654,326,071
Paid:		
Current Year	(584,529,231)	(591,744,655)
Prior Year	(68,084,633)	(56,804,442)
Total	(652,613,864)	(648,549,097)
Ending balance	\$ 95,547,000	\$ 82,536,974

Note 6 - Distributions Payable

CenCal Health contracts with certain primary care physicians who agree to case manage all medical services provided to members assigned to them. For physicians thus contracted, CenCal Health withholds 20% to 40% of the fixed monthly capitation payment otherwise due to the physicians.

The withheld portion plus other amounts included by CenCal Health represent the physician's incentive pool, which is paid out to the physicians based on their ability to meet certain predetermined utilization and quality measures. In addition, effective January 1, 2015, CenCal offered additional capitation payments to various provider groups under the Access Coordination and Expansion program.

In accordance with those physician agreements, CenCal Health has accrued distributions payable of \$11,247,000 and \$10,215,000 as of June 30, 2022 and 2021, respectively.

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 7 - Commitments and Contingencies

CenCal Health rents various office space in the communities it serves which are non-cancelable and expire in 2025 and 2026. At the lease commencement date, lease right-of-use (ROU) assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term, which includes all fixed obligations arising from the lease contract. If an interest rate is not implicit in a lease, the CenCal Health utilizes its incremental borrowing rate for a period closely matching the lease term.

CenCal Health implemented GASB 87 as of July 1, 2021 and elected to use the practical expedient to not restate prior year financial statements due to impracticability. A \$46,721 adjustment was recorded to beginning net position to reflect the cumulative effect of this change in accounting principle for the year ended June 30, 2022.

Lease right-of-use assets and liabilities as of June 30, 2022 were as follows:

	2022
Right-of-use asset, net of amortization	\$ 1,601,607
Lease liabilities:	
Current lease liability	\$ 406,052
Noncurrent lease liability	1,272,578
Total lease liabilities	\$ 1,678,630

The aggregate future lease payments below summarize the remaining future undiscounted cash flows for leases as of June 30, 2022, and a reconciliation to lease liabilities reported on the financial statements.

2023		\$ 428,452
2024		442,516
2025		457,061
2026		402,061
	Total lease payments	1,730,090
	Less: interest	(51,460)
	Present value of lease liability	\$ 1,678,630

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 7 - **Commitments and Contingencies (Continued)**

CenCal Health has received a subpoena from the Office of Inspector General (OIG) for information regarding the reimbursement of network providers for services rendered to Medicaid MCE Adult members (also commonly called expansion members) in 2014 and 2015. CenCal Health is providing the requested information to the OIG and the case has moved into the mediation phase. At this time, there is no basis for estimation of a loss contingency. Accordingly, no amount has been recorded in these financial statements for any potential negative outcome.

Legal proceedings may arise from the normal conduct of business, but in the opinion of management and legal counsel, the ultimate dispositions of these matters will not have a materially adverse effect on the financial position or results of operations of CenCal Health.

Note 8 - **Defined Benefit Pension Plan**

General Information about the Pension Plans

Plan Descriptions – All regular employees with greater than 1,000 hours scheduled are eligible to participate in CenCal Health’s Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS).

Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Eligible employees hired after January 1, 2013 that are considered new members as defined by the Public Employees’ Pension Reform Act (PEPRA) are participating in the PEPRA Miscellaneous Plan. The activity and related liabilities for the PEPRA Miscellaneous plan is immaterial to the financial statements. Accordingly, disclosures within the financial statements are consolidated to present information for all Miscellaneous Plans.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, as discussed above. Members with five years of total service are eligible to retire at age 50 or 52 if in the PEPRA Miscellaneous Plan with statutorily reduced benefits. An optional benefit regarding sick leave was adopted. When any unused sick leave accumulates at the time of retirement, it will be converted to credited service at a rate of 0.004 years of service for each day of sick leave.

All members are eligible for non-duty disability benefits after 10 years of service. The system also provides for the Optional Settlement 2W Death Benefit, as well as the 1959 Survivor Benefit. The cost of living adjustments for all plans are applied as specified by the Public Employees’ Retirement Law.

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Defined Benefit Pension Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2022 and 2021 are summarized as follows:

	For the Year Ended June 30, 2022		For the Year Ended June 30, 2021	
	Miscellaneous		Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date	January 1, 2013	January 1, 2013	January 1, 2013	January 1, 2013
Benefit formula	2% @ 60	2% @ 62	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-63	52-67	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.1% to 2.4%	1.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.75%	7.00%	6.75%
Required employer contribution rates	8.65%	7.59%	14.64%	7.97%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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.

CenCal Health is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the years ended June 30, 2022 and 2021, the contributions recognized as part of pension expense for all Plans were as follows:

	Miscellaneous Plan	
	June 30, 2022	June 30, 2021
Contributions – employer	\$ 3,684,286	\$ 3,432,630

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Defined Benefit Pension Plan (Continued)

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

CenCal Health's net pension liability for all Plans is measured as the proportionate share of the net pension liability. As of June 30, 2022 and 2021, CenCal Health reported net pension liabilities for its proportionate shares of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability (Asset)	
	For the Year Ended June 30, 2022	For the Year Ended June 30, 2021
Miscellaneous	\$ (1,346,155)	\$ 8,125,247

For the year ended June 30, 2021, the net pension liability of all of the Plans is measured as of June 30, 2020, and the total pension liability for all Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures.

For the year ended June 30, 2022, the net pension liability of all of the Plans is measured as of June 30, 2021, and the total pension liability for all Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures.

CenCal Health's proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. CenCal Health's proportionate share of the net pension liability for all Plans with an actuarial valuation date of June 30, 2020 and 2019 was as follows:

	For the Year Ended June 30, 2022		For the Year Ended June 30, 2021
	Miscellaneous		Miscellaneous
Proportion – June 30, 2019	0.19263%	Proportion – June 30, 2018	0.20000%
Proportion – June 30, 2020	-0.07089%	Proportion – June 30, 2019	0.19263%
Change – Decrease	-0.26352%	Change – Decrease	-0.00737%

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Defined Benefit Pension Plan (Continued)

For the years ended June 30, 2022 and 2021, CenCal Health recognized pension credit of (\$6,541,939) and pension expense of \$3,301,296, respectively. At June 30, 2022 and 2021, CenCal Health reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2022		June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,817,682	\$ -	\$ 3,684,286	\$ -
Differences between expected and actual experience	(150,957)	-	704,279	-
Changes in assumptions		-	-	(97,475)
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions	1,470,379	(217,489)	1,479,604	(553,544)
Net differences between projected and actual earnings on plan investments	1,575,588	-	405,987	-
Total	\$ 6,712,692	\$ (217,489)	\$ 6,274,156	\$ (651,019)

During the fiscal year ended June 30, 2022, \$3,684,286 in deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability. During the fiscal year ended June 30, 2021, \$3,432,630 in deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability. The current pension contribution to be recognized in the next fiscal year is \$3,817,682.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2023	\$ 988,696
2024	811,013
2025	553,069
2026	324,743
Thereafter	-
	\$ 2,677,521

CENCAL HEALTH
Local. Quality. Healthcare.
NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2022 and 2021 actuarial valuations were determined using the following actuarial assumptions:

	For the Year Ended June 30, 2022	For the Year Ended June 30, 2021
	Miscellaneous	Miscellaneous
Valuation Date	30-Jun-20	30-Jun-19
Measurement Date	30-Jun-21	30-Jun-20
Actual Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll Growth	2.75%	2.75%
Projected Salary Increase	Varies by entry age and service (1)	Varies by entry age and service (1)
Investment Rate of Return	7.15%	7.15%
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2017 valuation was based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2018 valuation was based on the results of a December 2017 actuarial experience study as discussed further below within this footnote. Further details of the Experience Studies can be found on the CalPERS website.

Changes in Benefit Terms - Public agencies can make changes to their plan provisions and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

Change of Assumptions and Methods - In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75 percent to 2.50 percent. The assumptions for individual salary increases and overall payroll growth are reduced from 3.00 percent to 2.75 percent. However, for financial reporting purposes, these assumption changes are fully reflected in the results for Fiscal Year 2017-18.

Discount Rate – According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expenses. The 7.15 percent investment return assumption used in this accounting valuation is net of administrative expenses.

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Defined Benefit Pension Plan (Continued)

Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent (which will phase down to 7.15 percent). Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2019-20 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class at June 30, 2021 and 2020, respectively. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	June 30, 2022			June 30, 2021		
	Net Strategic Allocation	Real Return	Real Return	Net Strategic Allocation	Real Return	Real Return
		Years 1 -10(a)	Years 11+(b)		Years 1 -10(a)	Years 11+(b)
Global Equity	50.00%	4.80%	5.98%	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%	1.00%	0.00%	-0.92%

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Defined Benefit Pension Plan (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents CenCal Health’s proportionate share of the net pension liability for all Plans for the years ended June 30, 2022 and 2021, calculated using the discount rate for all Plans, as well as what CenCal Health’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

For the Year Ended June 30, 2022		For the Year Ended June 30, 2021	
Miscellaneous		Miscellaneous	
1% Decrease	6.15%	1% Decrease	6.15%
Net Pension Asset	\$ 7,476,348	Net Pension Liability	\$ 12,975,345
Current Discount Rate	7.15%	Current Discount Rate	7.15%
Net Pension Asset	\$ (1,346,155)	Net Pension Liability	\$ 8,125,247
1% Increase	8.15%	1% Increase	8.15%
Net Pension Asset	\$ (8,639,591)	Net Pension Liability	\$ 4,117,748

Pension Plan Fiduciary Net Position – Detailed information about all pension plan fiduciary net positions is available in the separately issued CalPERS financial reports.

Note 9 - Deferred Compensation Plan

CenCal Health offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are maintained (until paid or made available to the participant or beneficiary) in a trust account administered by State Street Bank and Trust. Participants have sole rights under the plan in an amount equal to the fair market value of the deferred account for each participant.

Note 10 - Regulatory Requirements

Under the California Knox-Keene Health Care Service Plan Act of 1975, as amended, CenCal Health must comply with certain minimum capital or tangible net equity requirements. CenCal Health’s net worth exceeded the minimum requirement at June 30, 2022 and 2021. Additionally, CenCal Health must maintain minimum investment amounts for the restricted use of the regulators, which totaled \$300,000 at June 30, 2022 and 2021.

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 11 - Related Party Transactions

CenCal Health's Board of Directors consists primarily of medical care providers for whom CenCal Health has executed reimbursement contracts for providing medical services to CenCal Health members.

The following represents provider contracts whom directly or indirectly through assigned representative are or were members of CenCal Health's Board of Directors during the fiscal years ending June 30, 2022 and 2021, respectively:

- A member of the Board of Directors is the Public Health Officer for the Public Health Department of Santa Barbara County. Payments to the Public Health Department of Santa Barbara County for medical services incurred during the years ended June 30, 2022 and 2021 in the amount of \$9,381,262 and \$11,700,711, respectively.
- The Chief Executive Officer of Twin Cities Community Hospital became a member of the Board of Directors during the fiscal year ending June 30, 2017. Payments to Twin Cities Community Hospital incurred during the fiscal years ended June 30, 2022 and 2021 were \$20,307,829 and \$18,006,544, respectively.
- The President & Chief Executive Officer of Marian Regional Medical Center (Dignity Health) became a member of the Board of Directors January 2020. Payments to Marian Regional Medical Center (Dignity Health) for medical services incurred during the fiscal years ended June 30, 2022 and 2021 were \$135,894,024 and \$110,229,828, respectively.
- A member of the Board of Directors is a physician contracted with CenCal Health to provide medical care services to CenCal Health members. Payments to the physician for medical services incurred during the fiscal years ended June 30, 2022 and 2021 were \$141,778 and \$117,903, respectively.
- A physician became a member of the Board of Directors in January 2020. He is a member of a provider contracted with CenCal Health. Payments to these providers for medical services incurred during the fiscal years ended June 30, 2022 and 2021 were 182,922 and \$60,019, respectively.
- The Chief Executive Officer of Visiting Nurse and Hospice Care became a member of the Board of Directors during the fiscal year ending June 30, 2017 (reappointed) and retired from VNA Health in February 2022. Payments to Visiting Nurse and Hospice Care for medical services incurred during fiscal years ended June 30, 2022 and 2021 were \$2,612,239 and \$3,382,045, respectively.
- The Health Agency Director for the San Luis Obispo Health Agency became a member of the Board of Directors August 2018. Payment to San Luis Obispo Health Agency for medical services incurred during the years ended June 30, 2022 and 2021 were \$661,096 and \$551,135, respectively.

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 12 - Hospital Quality Assurance Fee (HQAF)

During the year ending June 30, 2013, the state of California established a hospital fee through Senate Bill 335, authorizing the State to assess a fee on California hospitals to generate new matching federal funds for the Medi-Cal program which are then reinvested into hospital payments via the Medi-Cal managed care health plans. The health plan acts solely as a temporary intermediary pass-thru entity and recognizes no associated revenue and expense. At June 30, 2022 and 2021 CenCal Health had a total of \$19,124,379 and \$16,205,909, respectively recorded as a payable to qualifying hospitals.

Note 13 - Managed Care Organization Taxes

In September 2009, the state of California approved a health plan tax, or intergovernmental transfer, on Managed Care Organizations (MCO). The health plan tax was assessed at 2.35% of capitation revenue on all Medi-Cal managed care plans through June 30, 2013 and was effective retroactively to January 1, 2009. Effective July 1, 2013 through June 30, 2016 the health plan tax was assessed at 3.9375% of capitation revenue. Beginning July 1, 2020 the health plan tax was assessed at a fixed amount of \$16,483,579 per calendar quarter. The state of California uses the proceeds from the tax to draw down the corresponding federal match on Medicaid related dollars. The Department of Health Care Services/Medical Managed Care Division adjusted capitation rates retroactively to January 1, 2009 in order to offset the health plan tax. On April 3, 2020 the federal Centers for Medicine approved the modified MCO tax under Assembly Bill 115. The modified MCO tax was approved with a later effective date of January 2020, contrary to July 1, 2019. The MCO tax for the years ended June 30, 2022 and 2021 was \$77,260,350 and \$65,394,315, respectively.

Note 14 - 85% Medical Loss Ratio (MLR)

CenCal Health's State contract amendment A18 stipulates a medical loss ratio corridor on the ACA's MCE Adult population covering the period January 1, 2014 to June 30, 2016. After completion of the MLR calculation [MCE Adult medical care expenses divided by MCE Adult capitation revenue], if the MLR does not meet the minimum 85% threshold, then the DHCS will recoup the excess capitation revenue up to the point where the MLR will equal 85%.

The initial MLR reporting period is an 18-month period covering January 1, 2014 to June 30, 2015; the second reporting period is from July 1, 2015 to June 30, 2016. During the year, the first and second reporting periods have been submitted to the DHCS and paid out accordingly. A third and fourth reporting period covering July 1, 2016 to June 30, 2017 and July 1, 2017 to June 30, 2021 has been accrued by the health plan. The liability for the potential DHCS recoup of excess revenue as of June 30, 2022 and 2021 is reported as \$54,408,482 and \$51,551,046, respectively.

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 15 - Intergovernmental Transfers (IGT)

The state of California and qualifying provider entities contract together to arrange new matching federal funds for the Medi-Cal program, which are then reinvested into the applicable IGT provider entity towards covering their cost of care to Medi-Cal beneficiaries via the Medi-Cal managed care health plans. The health plan acts solely as a temporary intermediary pass-thru entity and recognizes no associated revenue and expense, other than a nominal administrative fee charged to the qualify IGT provider. At June 30, 2022 and 2021 CenCal Health had a total of \$59,185,886 and \$40,199,037 recorded as a payable to qualifying IGT providers, respectively.

Note 16 - Pooled Directed Payments

Beginning with the July 1, 2017, rating period, the DHCS will direct MCPs to reimburse private hospitals as defined in WIC 14169.51, based on actual utilization of contracted services. The enhanced payments are contingent upon hospitals providing adequate access to service, including primary, specialty, and inpatient (both tertiary and quaternary) care. The state will evaluate the extent to which enhanced payments are achieving the goals identified. These may only apply to certain managed care categories of aid. The payments will be enhanced by either a uniform percentage or dollar increment. The total funding available for the enhanced contracted payments will be limited to a predetermined amount (pool). At June 30, 2022 and 2021 CenCal Health had a total of \$198,415,850 and \$123,791,000 recorded as a liability, respectively.

Note 17 - Company Owned Life Insurance

In July 2020, CenCal Health purchased a group life insurance policy on executives and directors of CenCal Health naming CenCal Health as sole beneficiary. The insurance company issued an individual certificate for each executive and director when the policy was purchased. The entire policy was funded with an initial single premium of \$10,000,000. The maximum surrender charge of the policy value on the date of surrender is as follows:

<u>Policy Year</u>	<u>% of Policy Value</u>
1-6	3%
7-9	2%
10-12	1%
13+	0%

CENCAL HEALTH

Local. Quality. Healthcare.

NOTES TO THE FINANCIAL STATEMENTS

Note 18 - **COVID Pandemic**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which CenCal Health operates. It is unknown how long these conditions will last and what the complete financial effect will be to CenCal Health.

Note 19 - **Subsequent Events**

Subsequent events have been evaluated through October 14, 2022, the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CENCAL HEALTH
Local. Quality. Healthcare.
A COST SHARE PLAN DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2022
LAST 10 YEARS*
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CENCAL HEALTH'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	-0.00330%	0.02476%	0.07816%	0.08311%	0.09405%	0.08824%	0.07550%	0.09677%
Proportionate share of the net pension liability (asset)	\$ (1,346,155)	\$ 8,125,247	\$ 8,008,982	\$ 8,004,438	\$ 9,326,844	\$ 7,635,532	\$ 5,182,243	\$ 6,021,638
Covered payroll	\$ 24,941,656	\$ 23,076,730	\$ 20,459,019	\$ 18,322,685	\$ 16,233,594	\$ 14,054,665	\$ 11,372,225	\$ 11,194,258
Proportionate Share of the net pension liability (asset) as percentage of covered payroll	-5.40%	35.21%	39.15%	43.69%	57.45%	54.33%	45.57%	53.79%
Plan's fiduciary net position	\$ 68,167,651	\$ 53,176,970	\$ 47,792,357	\$ 42,586,255	\$ 36,908,123	\$ 32,475,495	\$ 31,827,321	\$ 28,412,413
Plan fiduciary net position as a percentage of the plan total pension liability (asset)	1036.69%	86.75%	85.65%	84.18%	79.83%	80.96%	86.00%	82.51%
Measurement date	06/30/21	06/30/20	06/30/19	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14
Valuation date	06/30/20	06/30/19	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14	06/30/13

Notes to Schedule:

* - Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown.

CENCAL HEALTH
Local. Quality. Healthcare.
A COST SHARE PLAN DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2022
LAST 10 YEARS*
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CENCAL HEALTH'S CONTRIBUTIONS

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 3,684,286	\$ 3,432,630	\$ 3,109,928	\$ 2,410,216	\$ 1,348,647	\$ 1,092,682	\$ 957,141	\$ 879,898
Contributions in related to the actuarially determined contributions	\$ 3,684,286	\$ 3,432,630	\$ 3,109,928	\$ 2,410,216	\$ 1,348,647	\$ 1,092,682	\$ 957,141	\$ 879,898
Contribution deficiency (excess)		-	-	-	-	-	-	-
Covered payroll	\$25,712,404	\$24,941,656	\$23,076,730	\$20,459,019	\$18,322,685	\$16,233,594	\$14,054,665	\$11,372,225
Contributions as a percentage of covered	14.33%	13.76%	13.48%	11.78%	7.36%	6.73%	6.81%	7.74%

Notes to Schedule:

* - Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown.

ADDITIONAL INFORMATION

CENCAL HEALTH
Local Quality Healthcare
SCHEDULE OF REVENUES AND EXPENSES PER MEMBER PER MONTH
YEARS ENDED JUNE 30, 2022 AND 2021

	2022		2021	
	Per Member Per Month *	As a Percentage of Total Revenue	Per Member Per Month **	As a Percentage of Total Revenue
REVENUES:				
Capitation/Premiums	\$ 466.57	99.42%	\$ 449.83	99.83%
Other	2.35	0.50%	0.22	0.05%
Interest income	0.36	0.08%	0.54	0.12%
Total revenues	469.28	100.00%	450.59	100.00%
EXPENSES:				
Medical expenses:				
PCP capitation, incentives and other	13.91	2.96%	14.22	3.16%
Physician services	66.35	14.14%	72.60	16.11%
Pharmaceuticals	33.33	7.10%	67.65	15.01%
Hospital inpatient services	84.92	18.10%	72.53	16.10%
Hospital outpatient services	24.94	5.31%	22.09	4.90%
Long-term care services	50.85	10.84%	47.06	10.44%
Optometric services	0.71	0.15%	0.69	0.15%
Home health care	1.24	0.26%	1.54	0.34%
Laboratory services	6.63	1.41%	7.20	1.60%
Audiology services	0.43	0.09%	0.49	0.11%
Physical and speech therapies	1.27	0.27%	1.13	0.25%
Medical transportation	4.36	0.93%	4.42	0.98%
Durable medical equipment and prosthetics	3.54	0.75%	4.18	0.93%
Mental and behavioral health	17.87	3.81%	15.81	3.51%
Other health care services	99.57	21.22%	77.62	17.23%
Quality improvement incentives	1.61	0.34%	1.73	0.38%
Medical cost recoveries - net	(0.91)	-0.19%	0.32	0.07%
Total medical expenses	410.62	87.50%	411.29	91.27%
Administrative expenses:				
Salaries and fringe benefits	10.64	2.27%	14.67	3.26%
Contract services	3.30	0.70%	4.02	0.89%
Travel and transportation	0.03	0.01%	0.01	0.00%
Rent and occupancy	0.31	0.07%	0.50	0.11%
Office supplies and minor equipment	0.17	0.04%	0.14	0.03%
Data communications	0.25	0.05%	0.30	0.07%
Postage and printing	0.30	0.06%	0.24	0.05%
Equipment and software maintenance	0.03	0.01%	0.02	0.00%
Depreciation and amortization	0.68	0.14%	0.50	0.11%
Other	1.57	0.33%	1.45	0.32%
Total administrative expenses	17.28	3.68%	21.85	4.84%
MCO tax expense	30.55	6.51%	28.31	6.28%
Total operating expenses	458.45	97.69%	461.45	102.38%
REALIZED and UNREALIZED GAINS (LOSSES):	(0.88)	-0.19%	(0.13)	-0.03%
OPERATING GAIN (LOSS):	\$ 9.95	2.12%	\$ (10.99)	-2.41%

* 2,528,630 member months for 2021-22

** 2,328,774 member months for 2020-21

See accompanying notes

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF MEDICAL EXPENSES - ACTUAL AND BUDGET
Years Ending June 30, 2022 and 2021

	2022			2021
	Actual	Budgeted	Over (Under) Budget	Actual
MEDICAL EXPENSES:				
PCP capitation, incentives and other	\$ 35,185,564	\$ 38,002,000	\$ (2,816,436)	\$ 33,108,270
Physician services	167,766,661	188,771,000	(21,004,339)	169,066,645
Pharmaceuticals	84,283,858	92,744,000	(8,460,142)	157,553,080
Hospital inpatient services	214,733,945	191,853,000	22,880,945	168,917,464
Hospital outpatient services	63,063,570	57,585,000	5,478,570	51,435,635
Long-term care services	128,573,151	113,033,000	15,540,151	109,594,938
Optometric services	1,802,625	1,808,000	(5,375)	1,600,524
Home health care	3,134,695	4,077,000	(942,305)	3,595,631
Laboratory services	16,772,485	15,238,000	1,534,485	16,772,485
Audiology services	1,094,108	1,172,000	(77,892)	1,135,262
Physical and speech therapies	3,202,527	2,775,000	427,527	2,635,247
Medical transportation	11,016,341	11,532,000	(515,659)	10,284,699
Durable medical equipment and prosthetics	8,956,287	10,512,000	(1,555,713)	9,731,682
Mental and behavioral health	45,188,203	36,751,000	8,437,203	36,824,604
Other health care services	251,781,809	170,177,000	81,604,809	180,767,017
Quality improvement incentives	4,060,850	4,432,000	(371,150)	4,029,610
Medical cost recoveries - net	(2,307,272)	1,543,000	(3,850,272)	747,018
TOTAL MEDICAL EXPENSES	\$ 1,038,309,407	\$ 942,005,000	\$ 96,304,407	\$ 957,799,811

See accompanying notes

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF ADMINISTRATIVE EXPENSES - ACTUAL AND BUDGET
Years Ending June 30, 2022 and 2021

	<u>2022</u>		Over (Under) Budget	<u>2021</u>
	Actual	Budgeted		Actual
ADMINISTRATIVE EXPENSES:				
Salaries and wages	\$ 25,393,905	\$ 26,785,500	\$ (1,391,595)	\$ 23,395,358
Health, dental, and other employee benefits	8,064,516	7,790,100	274,416	7,462,419
CalPERS retirement costs	(6,541,940)	4,268,000	(10,809,940)	3,301,296
Outside services / consultants	7,913,642	8,135,000	(221,358)	8,168,056
Legal services	355,526	2,150,000	(1,794,474)	1,107,684
Auditing services	84,280	83,000	1,280	83,600
Travel and transportation	65,853	274,000	(208,147)	14,346
Rent	1,932	414,000	(412,068)	402,138
Utilities	299,305	269,000	30,305	259,588
Repairs and maintenance	255,619	225,000	30,619	228,161
Other occupancy costs	216,333	347,000	(130,667)	271,365
Equipment leases	65,246	79,000	(13,754)	85,627
Office supplies and minor equipment	373,116	348,870	24,246	231,879
Postage	344,569	240,000	104,569	249,499
Printing	413,918	598,000	(184,082)	308,795
Depreciation and amortization	1,706,881	1,614,000	92,881	1,160,272
Insurance	942,024	671,000	271,024	377,155
Equipment and software maintenance	85,609	100,000	(14,391)	40,067
Data Communications	641,323	765,000	(123,677)	703,162
Credentialing fees	33,045	27,000	6,045	28,772
Subscriptions and publications	2,281,223	2,096,000	185,223	1,846,816
Professional association fees	235,631	264,000	(28,369)	213,781
Community relations / marketing	495,765	585,000	(89,235)	594,680
Member / provider materials	68,099	112,000	(43,901)	109,267
Community health promotion	89,237	270,000	(180,763)	41,411
Provider relations and recruitment	-	64,000	(64,000)	8,005
Board of director / advisory board stipends	20,947	35,000	(14,053)	23,725
Business meeting expenses	-	207,000	(207,000)	16,979
Other expenses	(194,266)	755,500	(949,766)	107,166
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$ 43,711,338</u></u>	<u><u>\$ 59,571,970</u></u>	<u><u>\$ (15,860,632)</u></u>	<u><u>\$ 50,841,069</u></u>

See accompanying notes



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

**To the Board of Directors of
CenCal Health:**

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 CenCal Health, which comprise CenCal Health's balance sheets as June 30, 2022, the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CenCal Health'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CenCal Health's internal control. Accordingly, we do not express an opinion on the effectiveness of the CenCal Health's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-001, 2022-002, and 2022-03 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-004 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether CenCal Health'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*.

Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on CenCal Health's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. CenCal Health's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response

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

Bartlett, Pringh + Wolf, LLP

Santa Barbara, California
October 14, 2022

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

I. FINANCIAL STATEMENT FINDINGS

Finding 2022-001: Medical Loss Ratio

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria:

CenCal Health is required to submit Medical Loss Ratio (MLR) calculations to the California Department of Health Care Services (DHCS) for the proportion of capitation revenues spent on medical costs related to Adult Expansion and Proposition 56. If the MLR does not meet a minimum 85% threshold, DHCS will recoup the excess capitation revenue. The MLR calculation for the fiscal year ended June 30, 2018 has been submitted to DHCS and CenCal Health is awaiting a final response. The MLR calculations for the periods July 1, 2018 through June 30, 2022 have not yet been submitted to DHCS. CenCal Health recognized a liability for estimated recoup amounts due to DHCS for the period July 1, 2017 through June 30, 2022. As of June 30, 2022, CenCal Health recorded an estimated DHCS recoup liability totaling \$69.5 million.

Condition and Context:

The MLR workbooks provided by management calculated an total estimated recoup of \$48.5 million. Management included an additional \$21 million judgmental accrual in the year-end liability balance. There is no documented methodology or supporting calculation for this judgmental accrual.

During the audit, we noted errors in the MLR calculation workbooks including missing formulas and cells linked to data from incorrect periods. Management provided updated versions of the workbooks with additional errors in the calculations.

The final MLR workbooks calculated a total recoup of \$52.9 million. To be conservative, management estimated an additional \$1.5 million judgmental accrual for a total recoup liability of \$54.4 million.

Cause:

Management's review of the MLR workbooks did not detect various errors in the calculations. Management does have procedures to reconcile the MLR worksheets to the trial balance. Management does not document methodology or supporting calculations for judgmental accruals.

Effect:

An audit adjustment increasing the change in net position by \$15.1 million was required to properly reflect the accrued DHCS revenue recoup liability account.

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

Recommendation:

We recommend that management perform an independent review of the MLR worksheets and reconciliation to the trial balance each period. Review should include reperformance of calculations and verification that data used in the worksheets is accurate. If additional judgmental accruals are recorded, management should maintain documentation of the basis of the estimate, assumptions made, and supporting calculations.

Views of Responsible Officials:

We concur with the recommendation.

Two (2) primary concerns are identified within this audit adjustment: (1) an excess magnitude of MLR reserves and (2) errors identified within the staff MLR worksheets.

The sole MLR reporting template received from DHCS is for FY17/18, which was completed and submitted to DHCS two and half years ago. As a result, Finance staff uses the FY17/18 reporting instructions to estimate the liability for FY18/19, Bridge Period (July 19 to Dec 2020), CY2021 and YTD CY2022. The MLR reporting template and instructions for FY 17/18 do not correlate perfectly to how subsequent rate periods will be calculated and reported to DHCS due to several new revenue and expense mechanisms for which DHCS is waiting for CMS guidelines on. This is the reason the DHCS has only requested MLR reporting from health plans for FY17/18 so far. To be conservative for this uncertainty around subsequent MLR reporting requirements, staff accrued additional MLR reserves over the last five (5) totaling \$15 million. Going forward, the decision to apply extra accrual reserves will take on a greater methodical approach which is fully explained and documented within the applicable worksheets. In reflection, we believe two core items contributed to staff worksheet errors and the ability of these errors to flow through into journal entries.

Proper training plays a large role towards mitigating errors. A large influx of new staff over the past year into the finance department created an environment where lots of training needed to occur on the complex financial calculations and estimates. The training appears to have come up short. We are implementing a robust training discipline which will include participation by many department staff for each individual complex item. This will also ensure sufficient cross-training and staff backup is an outcome of the training.

Identifying mistakes and errors before flowing into a journal entry is also critical. Discussions among the department's Manager and Director are taking place currently towards redesigning their methodology of oversight and review of staff's work.

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

Finding 2022-002: Prior Year Revenue and Expense

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria:

CenCal Health updates capitation revenue figures as a result of retroactive rate changes received from the State of California. When these changes occur, CenCal Health records an adjustment to the accounts receivable and prior year revenue – changes in estimate accounts. To account for the related pass through costs, CenCal Health records an adjustment to the respective liability account (i.e. Accrued Rate Range IGT, Accrued Hospital Directed Payments, and Accrued HQAF Directed Payments) and the prior year expense accounts.

Condition and Context:

For the year ended June 30, 2022, adjustments related to the retroactive revenue adjustments were correctly recorded to the accounts receivable and prior year revenue accounts. The entries to record the pass through costs were recorded to the correct liability accounts however, the other side of the entry was record to prior year revenue instead of prior year expense. As a result, prior year revenue and prior year expense was materially understated.

Cause:

CenCal Health performs periodic reconciliations of accounts receivable and accrued liability activity to the trial balance. Reconciliations of prior year revenue and expense account activity to the trial balance are not performed. Errors in recording adjusting journal entries went undetected.

Effect:

Although there was no net effect to the change in net position, a reclassification audit adjustment for \$28.8 million was required to properly reflect the prior year revenue and expense accounts.

Recommendation:

We recommend that procedures to verify the accuracy of prior year revenue and expense calculations be implemented.

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

Views of Responsible Officials:

We concur with the recommendation.

The current revenue entry contains adjustments to the accounts receivable, revenue, liability, and expense accounts with reconciliations to the balance sheet general ledger accounts. Staff will update the reconciliation methodology to also include the prior year revenue and prior year expense accounts to match up to the revenue worksheet changes each month. This will assist identifying income statement reclassification issues when other review and oversight metrics indicate the health plan's operating gain or loss is accurate. These reconciliations will be reviewed by the department Manager and Director and reconciled to the financial statements during each month end close. This reconciliation will allow staff to maintain correct balances within the general ledger to avoid any further audit adjustments of this nature.

The Manager and Director will also create a step-by-step procedure on all parts of the revenue reconciliation and train all users.

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

Finding 2022-003: CalAIM Incentive Payment Program

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria:

The DHCS implemented the CalAIM program in January 2022. One of the initiatives under the program is the Incentive Payment Program (IPP). This program is intended to support the implementation and expansion of enhanced care management and community support. Funds received under this program are intended to help providers build the related infrastructure. CenCal Health was awarded \$12.8M for the period January through December 2022. During the year ended June 30, 2022, CenCal Health recorded \$12.8 million in accounts receivable, income, accrued expense, and expense related to this program. CenCal Health received the first payment of \$6.4M in April 2022.

Condition and Context:

According to management, this program was slow to ramp up and the providers were not ready. CenCal Health is still waiting for providers to build the IPP infrastructure and then they will invoice CenCal Health for the cost. As of June 30, 2022, CenCal Health has not received any invoices from providers. As CenCal Health has not incurred any expenses under this program to date, it is too early to recognize the related income and expense. Accordingly, the \$6.4 million received in April 2022 should be classified as unearned revenue.

Cause:

CenCal Health initially recorded a journal entry to record \$12.8M in accounts receivable, accrued expenses, revenue, and expense. When the \$6.4 million payment was received, accounts receivable was reduced to \$6.4 million by CenCal Health.

Effect:

Although there was no net effect to the change in net position, an audit adjustment for \$12.8 million to reduce IPP income, expense, and accrued expense. In addition an audit adjustment of \$6.4 million to reduce accounts receivable and increase unearned revenue was required to properly reflect this program in the financial statements.

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

Recommendation:

We recommend management perform periodic reviews of program revenue and expense to ensure revenue is recorded in the period it is earned and expenses are recorded in the period incurred.

Views of Responsible Officials:

We concur with the recommendation and will modify the accounting for CalAIM incentive programs going forward in accordance with the recommendation.

Staff collaborated with peer LHPC health plans on the best method to account for and record this new revenue stream from the DHCS and staff mirrored the methodology adopted by several health plans.

While staff's initial methodology arrives at the same destination, as in terms of its impact on net assets, taking into account the ramp up of the IPP and the effective time period for IPP, the auditor's recommendation is more aligned with Generally Accepted Accounting Principles (GAAP).

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

Finding 2022-004: Risk Corridor

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Criteria:

The DHCS established a risk corridor program based on the Adult Expansion Medical Loss Ratio (AE-MLR). If the ratio of amounts spent on allowed medical expenses exceeds a certain threshold, amounts are due from DHCS to CenCal Health.

Condition and Context:

Each month, CenCal Health estimates the amount due under the program and records a journal entry to recognize the related accounts receivable and revenue amounts. As of June 30, 2022, CenCal Health estimated \$2.7 million is due from DHCS however, this receivable and the related revenue was not recognized.

Cause:

As of June 30, 2022, CenCal Health recorded an adjustment to agree the accounts receivable balances to the revenue workbooks. As the risk corridor calculation was not included in the revenue workbook, CenCal Health did not recognize this receivable and the related revenue.

Effect:

An audit adjustment increasing change in net position by \$2.7 million was required to properly reflect estimated amounts due under this program.

Recommendation:

We recommend management perform independent reviews of the reconciliation of revenue workbooks to accounts receivable balances to ensure accuracy and completeness.

CENCAL HEALTH
Local. Quality. Healthcare.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

Views of Responsible Officials:

We concur with the recommendation.

Within the accounts receivable revenue account, there are multiple sources of anticipated revenue to be reconciled, which are very complex when grouped together. Staff will create new general ledger accounts to separate risk corridor items from the normal accounts receivable account from DHCS in order to create greater clarity and identification of the risk corridor estimate. This will ensure the monthly reconciliation on risk corridor worksheets will reconcile to the general ledger in an efficient and methodical process. The reconciliation will be reviewed by the Manager and Director, and be reconciled to the financial statements during each month end close. This reconciliation will allow staff to maintain correct balances to avoid any further audit adjustments on this issue.

Manager and Director will create a step-by-step procedure on the risk corridor reconciliation and train all users.