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09/24/07

ALAMEDA ALLIANCE FOR HEALTH AND
ALAMEDA ALLIANCE JOINT POWERS
AUTHORITY

COMMUNICATION TO THE
BOARD OF GOVERNORS

JUNE 30, 2007

Draft

To the Board of Governors of
Alameda Alliance for Health and
Alameda Alliance Joint Powers Authority

We have audited the financial statements of Alameda Alliance for Health and the Alameda Alliance Joint Powers Authority (collectively the "Alliance") for the year ended June 30, 2007, and has issued our report thereon dated _____. Professional standards require that we provide you with the following information related to our audit.

AUDITOR'S RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated March 15, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Alliance. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Alliance are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during June 30, 2007. We noted no transactions entered into by the Alliance during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

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- Management recorded an estimated liability for incurred but unpaid claims expense. The estimated liability for unpaid claims is based on management's estimate of historical claims experience and known activity subsequent to year end. We have gained an understanding of management's estimate methodology, and have examined the documentation supporting these methodologies and formulas. We found management's process to be reasonable.
- The useful lives of fixed assets have been estimated based on the intended use and are within accounting principles generally accepted in the United States of America.
- Management recorded an estimated capitation payments receivable. The estimated capitation receivable for eligible Medi-Cal program beneficiaries is based upon an historical experience methodology. These programs include DHH AIDS Capitation and IHSS Group Care among others. We have gained an understanding of management's estimate methodology, and have examined the documentation supporting these methodologies and formulas. We found management's process to be reasonable.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Alliance's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Alliance, either individually or in the aggregate, indicate matters that could have a significant effect on the Alliance's financial reporting process. There were no proposed audit adjustments during this year's audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Alliance's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Alliance's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Board of Governors and management of the Alliance and is not intended to be, and should not be, used by anyone other than these specified parties.

San Francisco, California
