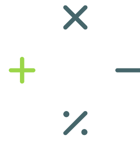

*Report of Independent Auditors and*
*Combined Financial Statements*

# Alameda Alliance for Health and Alameda Alliance Joint Powers Authority

*June 30, 2021 and 2020*

MOSSADAMS

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# Management's Discussion and Analysis

## INTRODUCTION

In accordance with the Governmental Accounting Standards Board ("GASB") Codification Section 2200, *Comprehensive Annual Financial Report*, Alameda Alliance for Health and Alameda Alliance Joint Powers Authority (collectively the "Alliance") presents comparative financial highlights as of and for the fiscal years ended June 30, 2021, 2020, and 2019. This discussion and analysis should be read in conjunction with the combined financial statements in this report.

Alameda Alliance for Health is a licensed health maintenance organization that operates in Alameda County (the "County"). The County's Board of Supervisors established Alameda Alliance for Health in March 1994 in accordance with the State of California Welfare and Institutions Code (the "Code") Section 14087.54. This legislation provides that the Alliance is a public entity, separate and apart from the County and is not considered an agency, division, or department of the County. Alameda Alliance for Health is not governed by, nor is it subject to, the Charter of the County and is not subject to the County's policies or operational rules. Alameda Alliance for Health received its Knox-Keene license in September 1995 and commenced operations in January 1996.

Alameda Alliance for Health operates the Alameda Alliance Joint Powers Authority (the "JPA"), a licensed health maintenance organization that operates in the County. The County's Board of Supervisors established the JPA in October 2005 in accordance with Section 14087.54. This legislation provides that the JPA is also a public entity, separate and apart from the County, and is not an agency, division, or department of the County. The JPA is not governed by, nor is it subject to, the Charter of the County and is not subject to the County's policies or operational rules. The JPA received its Knox-Keene license and commenced operations in December 2005. Alameda Alliance for Health and the JPA have a mutual guarantee agreement, ensuring mutual solvency for the two organizations. In September 2020, both parties agreed to dissolve the JPA and transfer existing business of JPA to Alameda Alliance for Health license. Subsequently, California Department of Managed Care, the licensing body, approved the surrender of its JPA license in July 2021.

The mission and purpose of the Alliance is to improve the quality of life of our members and people throughout our diverse community by collaborating with our provider partners in delivering high quality, accessible, and affordable health care services. As participants of the safety-net system, we recognize and seek to collaboratively address social determinants of health as we proudly serve Alameda County. No individual or entity has any ownership interest in the Alliance and all accumulated net position is available to invest in programs consistent with its mission.

Alameda Alliance for Health contracts with the California Department of Health Care Services ("CDHCS") to receive funding to provide health care services to the Medi-Cal eligible County residents who are enrolled as members of the Alliance ("CDHCS Contract"). The CDHCS Contract specifies capitation rates that may be adjusted annually. CDHCS revenue is paid monthly and is based upon contracted rates and actual Medi-Cal enrollment. Alameda Alliance for Health, in turn, has contracted with hospitals and physicians whereby capitation payments (agreed-upon monthly payments per member) and fee-for-service payments are made in return for contracted health care services for its members. Provider contracts are typically evergreen and contain annual rate change provisions, termination clauses, and risk-sharing provisions.

The original JPA entity contracted with the Public Authority of Alameda County to provide health coverage to In-Home Supportive Service home care workers in the County via the Group Care program. Due to the dissolution of the JPA, Group Care program is assigned to Alameda Alliance for Health with previous contract terms. The contract is automatically renewed on an annual basis, absent adequate written notice to terminate by either party. No written notice of termination was provided by either party during the years ended June 30, 2021, 2020, and 2019, except for the change of assignment.

In September 2009, CDHCS implemented Assembly Bill No. 1422 ("AB 1422") or Managed Care Organization ("MCO") premium tax. This program imposes an assessment on Alameda Alliance for Health's capitation and premium revenue. The proceeds from the tax are appropriated from the Children's Health and Human Services Special Fund to the State Department of Health Care Services for specified purposes. This provision was effective retroactively to January 1, 2009, and continued through June 30, 2013. The provisions of AB 1422 were continued, a higher tax rate implemented, and a sales tax replaced the premium tax, via Senate Bill ("SB") 78, beginning July 1, 2013 through June 30, 2016. On March 1, 2016, SB X2-2 established a new MCO provider tax, to be administered by CDHCS, effective July 1, 2016 through July 1, 2019. The tax would be assessed by CDHCS on licensed health care service plans, managed care plans contracted with CDHCS to provide Medi-Cal services, and alternate health care service plans ("AHCSP"), as defined, except as excluded by the bill. This bill would establish applicable taxing tiers and per enrollee amounts for the 2016–2017, 2017–2018, and 2018–2019 fiscal years for Medi-Cal enrollees, AHCSP enrollees, and all other enrollees, as defined. On September 27, 2019, Assembly Bill 115 (Chapter 348, Statutes 2019) authorized CDHCS to implement a modified MCO tax model on specified health plans, which was approved by the federal Centers for Medicare & Medicaid Services on April 3, 2020. The effective date range for this approval is January 1, 2020 through December 31, 2022.

Commencing in June 2010, CDHCS implemented a supplemental revenue or intra-governmental transfer program. This program assesses fees on the revenue of participating providers. CDHCS uses these assessments to obtain matching federal funds, which are returned to participating Alliance providers through the Alliance's administration. Alameda Alliance for Health received supplemental medical revenue of $76,642,409, $63,124,258, and $61,511,930 for the years ended June 30, 2021, 2020, and 2019, respectively, representing the assessment and matching funds, net of MCO premium tax of $0 for the years ended June 30, 2021, 2020, and 2019, respectively. Related liabilities are recorded under payable to other governmental agencies, hospital fee, and directed payments payables in the combined statements of net position as of June 30, 2021, 2020, and 2019.

On September 8, 2010, the California State Legislature ratified Assembly Bill No. 1653, which established a Hospital Quality Assurance Fee ("HQAF") program allowing additional draw down of federal funding to be used for increased payments to general acute care hospitals for inpatient services rendered to Medi-Cal beneficiaries. Pursuant to Section 14167.6 (a), CDHCS increased capitation payments to Medi-Cal managed health care plans retroactive for the months of April 2009 through December 2010. Additionally, Medi-Cal managed care plans are required to adhere to the following regarding the distribution of the increased capitation rates with HQAF funding: Section 14167.6 (h)(1), "Each managed health care plan shall expend 100 percent of any increased capitation payments it receives under this section, on hospital services"; and, Section 14167.10 (a), "Each managed health care plan receiving increased capitation payments under Section 14167.6 shall expend increased capitation payments on hospital services within 30 days of receiving the increased capitation payments." These payments were received and distributed in the manner as prescribed as a pass through to revenue. The payments did have an effect on the overall AB 1422 gross premium tax paid. In April of 2011, California approved SB 90, which extended the HQAF through June 30, 2012. SB 335, signed into law in September of 2011, extended the HQAF portion of SB 90 for an additional 30 months through December 31, 2013. SB 239, signed into law in October of 2013, extended the HQAF portion of SB 90 for an additional 36 months through December 31, 2016. In November of 2016, California approved Proposition 52, which made SB 239 permanent and also created HQAF V. The program period for HQAF V is from January 1, 2017 through June 30, 2019. Alameda Alliance for Health received HQAF payments of $76,015,141, $52,269,646, and $107,069,449 for the years ended June 30, 2021, 2020, and 2019, respectively, net of MCO premium tax of $0 for the years ended June 30, 2021, 2020, and 2019, respectively.

Beginning with the July 1, 2017, rating period, the CDHCS implemented managed care Directed Payments: 1) Private Hospital Directed Payment ("PHDP"), 2) Designated Public Hospital Enhanced Payment Program ("EPP"), and 3) Designated Public Hospital Quality Incentive Pool ("QIP"). (1) For PHDP, CDHCS will direct Managed Care Plans ("MCP") to reimburse private hospitals as defined in the Welfare and Institutions Code 14169.51, based on actual utilization of contracted services. The enhanced payment is contingent upon hospitals providing adequate access to service, including primary, specialty, and inpatient (both tertiary and quaternary) care. The total funding available for the enhanced contracted payments are limited to a predetermined amount (pool). (2) For EPP Pools, CDHCS has directed MCPs to reimburse California's 21 Designated Public Hospitals and University of California systems ("DPHs") for network contracted services, enhanced by either a uniform percentage or dollar increment based on actual utilization of network contracted services. (3) For QIP, CDHCS has directed the MCPs to make QIP payments tied to performance on designated performance metrics in four strategic categories: primary care, specialty care, inpatient care, and resource utilization. The payments are linked to the delivery of services under the MCP contracts and increase the amount of funding tied to quality outcomes. To receive QIP payments, the DPHs must achieve specified improvement targets through year-over-year improvement or sustained high performance requirements. The total funding available for the QIP payments will be limited to a predetermined amount (pool).

**Impact of COVID-19 and the Outlook** – The "Shelter in Place" went into effect on March 2020, causing a spike of unemployment in Alameda County, where an increased number of residents became eligible for Medi-Cal. Additionally, the State of California's declaration of a Public Health Emergency paused the normal Medi-Cal disenrollment process. The Alliance saw a significant increase in enrollment for fiscal year ended June 30, 2021 and in the last quarter of 2020. Management expects the increase of Medi-Cal enrollment will gradually slow down when the economy recovers and may decline when the Public Health Emergency is declared over and the Medi-Cal disenrollment process restarts.

In addition to COVID-19 impact, California launched a multi-year initiative called California Advancing and Innovating Medi-Cal ("CalAIM") to improve the quality of life and health outcomes of Medi-Cal population by implementing broad delivery system and program and payment reform across the Medi-Cal program. CalAIM is expected to take effect on January 1, 2022. This major initiative will bring the Alliance new funding and increased expenses, the net impact of this funding and increased expense is unknown at this time. In addition, California is transitioning pharmacy benefits from Medi-Cal Managed Care plan to Fee-for-Service effective January 1, 2022. The Alliance will have decreased premium revenue and decreased pharmacy expenses, with net neutral impact to the bottom line.

**Using This Annual Report** – The Alliance's combined financial statements consist of three statements – statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. These combined financial statements and related notes provide information about the activities of the Alliance, including resources held by the Alliance but restricted or designated for specific purposes. The combined financial statements include Alameda Alliance for Health and the JPA as they are under common management and control.

**The Combined Statements of Net Position and Combined Statements of Revenues, Expenses, and Changes in Net Position** – The statements of net position and statements of revenues, expenses, and changes in net position report information about the Alliance's resources and activities during the period. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All revenue and expenses are included, regardless of when cash is received or paid.

These two combined financial statements report the Alliance's net position and changes in net position. Over time, increases and decreases in the Alliance's net position are indicators of whether its financial health is improving or deteriorating. Other nonfinancial factors should also be considered, such as changes in the Alliance's membership, measurements for the quality of service provided to members, and local economic factors, to assess the overall health of the Alliance.

**The Combined Statements of Cash Flows** – The final required statements are the statements of cash flows. These statements present cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital financing, and capital and related financing activities.

## Overview of the Combined Financial Statements and Financial Analysis

On June 30, 2021, the Alliance had assets and deferred outflows of resources of $454,332,084 and liabilities and deferred inflows of resources of $248,922,042. The resulting net position, which represents the Alliance's assets and deferred outflows of resources after the liabilities and deferred inflows of resources are deducted, decreased by $764,773 to $205,410,042 at June 30, 2021, compared to $206,174,815 at June 30, 2020. The change in net position is due to total net operating loss and nonoperating income recorded during the 2021 fiscal year.

On June 30, 2020, the Alliance had assets and deferred outflows of resources of $546,485,883 and liabilities and deferred inflows of resources of $340,311,068. The resulting net position, which represents the assets and deferred outflows of resources after the liabilities and deferred inflows of resources are deducted, increased by $25,427,563 to $206,174,815 at June 30, 2020, compared to $180,747,252 at June 30, 2019. The change in net position is due to total net operating income and nonoperating income recorded during the 2020 fiscal year.

## ASSETS

### *Cash and Cash Equivalents*

Cash and cash equivalents decreased by $3,618,590 from $40,706,013 at June 30, 2020 to $37,087,423 at June 30, 2021. The decrease is due to cash provided by operating activities of $22,044,819, cash used in capital and related financing activities of $1,205,447, and cash used in investing activities of $24,457,962. Much of the decrease in cash reflects enhanced investing activities.

Cash and cash equivalents increased by $8,765,113 from $31,940,900 at June 30, 2019 to $40,706,013 at June 30, 2020. The increase is due to cash provided by operating activities of $22,005,121, cash used in capital and related financing activities of $1,461,026, and cash used in investing activities of $11,778,982. Much of the increase in cash reflects enhanced investing activities.

Changes in cash balances are due largely to the timing of collection of year end receivables. All financial assets are invested in highly-liquid, short-term instruments held in two large money market funds and a managed investment account. Alliance management believes it has adequate liquidity to meet its operating and cash flow needs for the foreseeable future.

### *Investments*

Investments consist of money market funds, commercial paper, U.S. government agency bonds, corporate bonds, and certificate of deposits. Investments increased by $24,979,240 from $238,969,073 at June 30, 2020 to $263,948,313 at June 30, 2021. The increase reflects purchases of investments. Investments increased by $16,067,679 from $222,901,394 at June 30, 2019 to $238,969,073 at June 30, 2020. The increase reflects purchases of investments and unrealized gains.

### *Premiums Receivable*

Premiums receivable represent amounts owed to the Alliance for capitation and premium revenue. Premiums receivable decreased by $119,311,448 from $242,555,462 at June 30, 2020 to $123,244,014 at June 30, 2021, largely reflecting the timing of receipts of certain premium revenues due from the State of California and the Directed Payment pools, which is passed through to Private and Designated Public hospitals. Premiums receivable increased by $58,515,672 from $184,039,790 at June 30, 2019 to $242,555,462 at June 30, 2020, largely reflecting the timing of receipts of certain premium revenues due from the State of California and the Directed Payment pools, which is passed through to Private and Designated Public hospitals.

### *Reinsurance Recoveries Receivable*

Reinsurance recoveries receivable represent anticipated, but not yet received collections under the reinsurance policy. Reinsurance recoveries receivable increased by $3,176,347 from $1,608,233 at June 30, 2020 to $4,784,580 at June 30, 2021. The increase reflects a timing difference in processing of high dollar claims by the reinsurance company. Reinsurance recoveries receivable increased by $1,464,156 from $144,077 at June 30, 2019 to $1,608,233 at June 30, 2020. The increase reflects a timing difference in processing of high dollar claims by the reinsurance company.

### *Other Receivables*

Other receivables represent miscellaneous non-premium amounts due to the Alliance. Other receivables increased by $4,741,323 from $3,634,309 at June 30, 2020 to $8,375,632 at June 30, 2021. The increase reflects the timing of cash receipts of certain payments owed at year end. Other receivables represent miscellaneous non-premium amounts due to the Alliance. Other receivables decreased by $1,593,227 from $5,227,536 at June 30, 2019 to $3,634,309 at June 30, 2020. The decrease reflects the timing of cash receipts of certain payments owed at year end.

### *Prepaid Expenses*

Prepaid expenses consist of payments made in the current period for goods or services to be received in one or more future periods. Prepaid expenses increased by $1,220,818 from $4,953,308 at June 30, 2020 to $6,174,126 at June 30, 2021. The component increases and decreases are attributable to the timing of payments for various costs that are to be charged to expense after year end. Prepaid expenses increased by $712,734 from $4,240,574 at June 30, 2019 to $4,953,308 at June 30, 2020. The component increases and decreases are attributable to the timing of payments for various costs that are to be charged to expense after year end.

### *Restricted Cash*

The California Department of Managed Health Care requires restricted cash of at least $300,000 be held in trust. Restricted cash remained at $350,000 at June 30, 2021. Restricted cash increased by $3,073 from $346,927 at June 30, 2019 to $350,000 at June 30, 2020, due to an increase in market value of the investment.

### *Capital Assets*

Net capital assets decreased by $3,739,804 from $10,011,939 at June 30, 2020 to $6,272,135 at June 30, 2021. The overall decrease reflects current year capital asset acquisitions of $1,205,447, loss on disposal of $2,907,150 and, annual depreciation and amortization expenses of $2,038,101.

Net capital assets decreased by $731,268 from $10,743,207 at June 30, 2019 to $10,011,939 at June 30, 2020. The overall decrease reflects current year capital asset acquisitions of $1,461,026 less annual depreciation and amortization expenses of $2,192,294.

### *Deferred Outflows of Resources*

Deferred outflows of resources represent the unamortized changes in assumptions, unamortized net difference between projected and actual earnings on pension plan investments, unamortized difference between expected and actual experience, and employee contributions made during 2018, 2019, and 2020 that are deferred under GASB 68. Deferred outflows of resources increased by $398,315 from $3,697,546 at June 30, 2020 to $4,095,861 at June 30, 2021, due to changes in assumptions, changes in the difference between projected and actual earnings on pension plan investments, and employee contributions made during fiscal year 2020.

Deferred outflows of resources increased by $244,027 from $3,453,519 at June 30, 2019 to $3,697,546 at June 30, 2020, due to changes in assumptions, changes in the difference between projected and actual earnings on pension plan investments, and employee contributions made during fiscal year 2020.

## LIABILITIES

### *Accounts Payable and Accrued Expenses*

Accounts payable and accrued expenses represent the cost of services received in the current period for which payment has yet to be made. Accounts payable and accrued expenses increased by $1,424,158 from $2,874,981 at June 30, 2020 to $4,299,139 at June 30, 2021, due to an increase in accrued invoices at year end. Accounts payable and accrued expenses decreased by $4,725,548 from $7,600,529 at June 30, 2019 to $2,874,981 at June 30, 2020, due to a decrease in accrued invoices at year end.

### *Claims Payable*

Claims payable represents the Alliance's estimated liability for health care and pharmacy expenses for which services have been performed but have not yet been paid for by the Alliance. Claims payable includes the estimated value of claims that have been incurred but not yet reported to the Alliance as well as the estimated value of claims that have been received by the Alliance but not yet paid.

Total claims payable increased by $43,408,851 from $88,695,976 at June 30, 2020 to $132,104,827 at June 30, 2021. Included in this change is an increase of $24,549,183 in the liability for incurred but not paid claims, and an increase of $11,042,772 in the liability for other medical payments. The change in the liability for incurred but not paid claims reflects increased estimates of 2020 and 2021 claims. The change in the liability for other medical payments is mainly due to a net increase in payables to certain providers.

Total claims payable decreased by $6,767,058 from $95,463,034 at June 30, 2019 to $88,695,976 at June 30, 2020. Included in this change is a decrease of $12,071,351 in the liability for incurred but not paid claims, and a decrease of $1,858,387 in the liability for other medical payments. The change in the liability for incurred but not paid claims reflects decreased estimates of 2019 and 2020 claims. The change in the liability for other medical payments is mainly due to a net decrease in payables to certain providers.

### *Payable to Other Governmental Agencies, Hospital Fee, and Directed Payments Payables*

Payable to other governmental agencies, hospital fee, and directed payments payables includes the amounts due for MCO tax assessments, liabilities related to IGT due to participating safety net hospitals, HQAF, Directed Payments due to Private and Designed Public hospitals, and medical loss ratio requirements. Payable to other governmental agencies and hospital fee payables decreased by $133,559,765 from $228,392,300 at June 30, 2020 to $94,832,535 at June 30, 2021, mainly due to the payout of the new Directed Payment program. Payable to other governmental agencies and hospital fee payables increased by $59,312,571 from $169,079,729 at June 30, 2019 to $228,392,300 at June 30, 2020, mainly due to the payout of the new Directed Payment program.

***Other Liabilities***

Other liabilities are comprised of a liability for payroll earned but not paid, a liability for provider pay-for-performance earned but not paid, and a liability for provider grants and new health management programs. Payroll liabilities increased by $1,275,710 from $3,490,557 as of June 30, 2020 to $4,766,267 as of June 30, 2021. Most of the increase reflected higher accrued paid time off. The pay-for-performance liability increased by $4,198,232 from $6,151,617 at June 30, 2020 to $10,349,849 at June 30, 2021, due to increase in funding for calendar year 2020 incentive programs. The provider grants and new health management liability decreased by $8,400,000 from $8,851,143 at June 30, 2020 to $451,143 at June 30, 2021, due to the termination of Provider Sustainability Fund program.

Payroll liabilities increased by $617,485 from $2,873,072 as of June 30, 2019 to $3,490,557 as of June 30, 2020. Most of the increase reflected higher accrued paid time off. The pay-for-performance liability increased by $1,352,998 from $4,798,619 at June 30, 2019 to $6,151,617 at June 30, 2020, due to increase in funding for calendar year 2019 incentive programs. The provider grants and new health management liability increased by $7,750,300 from $1,100,843 at June 30, 2019 to $8,851,143 at June 30, 2020, due to increase in funding for new Provider Sustainability Fund payout.

***Net Pension Liability***

Net pension liability represents the deficit between the California Public Employees' Retirement System ("CalPERS") pension assets and the CalPERS pension liability under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). Net pension liability increased by $832,375 from $832,801 at June 30, 2020 to $1,665,176 at June 30, 2021. The increase reflects that costs for the operation of the plan exceeded contributions for the year. Net pension liability increased by $832,801 from $0 at June 30, 2019 to $832,801 at June 30, 2020. The increase reflects that costs for the operation of the plan exceeded contributions for the year.

***Deferred Inflows of Resources***

Deferred inflows of resources represent the unamortized difference between projected and actual earnings on pension plan investments, unamortized changes in assumptions, and unamortized differences between expected and actual experiences under GASB 68. Deferred inflows of resources decreased by $568,587 from $1,021,693 at June 30, 2020 to $453,106 at June 30, 2021, due to the difference between projected and actual earnings on pension plan investments, changes in assumptions, and differences between expected and actual experiences.

Deferred inflows of resources decreased by $460,873 from $1,482,566 at June 30, 2019 to $1,021,693 at June 30, 2020, due to the difference between projected and actual earnings on pension plan investments, changes in assumptions, and differences between expected and actual experiences.

### *Net Position*

Total net position decreased by $764,773 from $206,174,815 at June 30, 2020 to $205,410,042 at June 30, 2021. The decrease is due to the following:

| | |
|---|---|
| Net operating loss | $ (1,351,806) |
| Investment income | 587,033 |
| Decrease in net position | $ (764,773) |

Total net position increased by $25,427,563 from $180,747,252 at June 30, 2019 to $206,174,815 at June 30, 2020. The increase is due to the following:

| | |
|---|---|
| Net operating income | $ 20,776,333 |
| Investment income | 4,651,230 |
| Increase in net position | $ 25,427,563 |

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

### *Capitation and Premium Revenue and Membership*

### *Member Months*

For the fiscal years ended June 30, 2021 and 2020, member months were as follows:

| | 2021 | 2020 | Decrease/ Increase | % Decrease/ Increase |
|---|---|---|---|---|
| Medi-Cal | 3,237,461 | 2,944,297 | 293,164 | 10% |
| Group Care | 71,864 | 73,285 | (1,421) | -2% |
| Total | 3,309,325 | 3,017,582 | 291,743 | 10% |

There were increases in all categories of aid, but the largest increases were experience in Optional Expansion, Child and Audit category of aid.

For the fiscal years ended June 30, 2020 and 2019, member months were as follows:

| | 2020 | 2019 | Decrease/ Increase | % Decrease/ Increase |
|---|---|---|---|---|
| Medi-Cal | 2,944,297 | 3,074,247 | (129,950) | -4% |
| Group Care | 73,285 | 70,612 | 2,673 | 4% |
| Total | 3,017,582 | 3,144,859 | (127,277) | -4% |

There were decreases in all categories of aid, but the greatest decreases were experience in the Child and Audit category of aid.

***Revenues***

For fiscal year 2021, capitation and premium revenue increased by $176,005,962 from $1,009,502,184 in 2020 to $1,185,508,146 in 2021. Medi-Cal revenue, net of premium taxes, increased by $174,059,105 or 18% due to higher supplemental payments, changes in capitation rates, and changes to the mix of members. Group Care revenue increased by $1,946,857 or 8% due to an increase in member months and offset by a 42% decrease in Hepatitis C Drug revenues.

For fiscal year 2020, capitation and premium revenue decreased by $16,613,528 from $1,026,115,712 in 2019 to $1,009,502,184 in 2020. Medi-Cal revenue, net of premium taxes, decreased by $17,458,933 or 2% due to higher supplemental payments, changes in capitation rates, and changes to the mix of members. Group Care revenue increased by $845,405 or 3.5% due to an increase in member months and offset by a 59.7% decrease in Hepatitis C Drug revenues.

***Medical Reinsurance***

Medical reinsurance, included in other revenue, includes reinsurance premium payments less refunds received or accrued. Net reinsurance income increased by $2,053,067 from ($4,727) in 2020 to $2,048,340 in 2021, due to higher recoveries offset by fewer deductibles. Net reinsurance income increased by $1,126,142 from ($1,130,869) in 2019 to ($4,727) in 2020, due to higher recoveries offset by fewer deductibles.

***Health Care Expense***

Health care expense represents the Alliance's cost of providing physician, hospital, pharmacy, laboratory, and other medical services to members. The Alliance has contracted with various health care providers whereby capitation payments (agreed-upon payments per member) and fee-for-service payments are made in return for contracted health care services for its members.

Health care expense increased by $143,373,360 or 16%, from $881,735,086 in 2020 to $1,025,108,446 in 2021 due to increased member months.

The chart below shows the per-member-per-month ("PMPM") effect of these costs:

| Health Care Expenses | 2021 | 2020 | 2021 PMPM | 2020 PMPM |
|---|---|---|---|---|
| Medical services | $ 1,025,108,446 | $ 881,735,086 | $ 309.76 | $ 292.20 |
| Total member months | 3,309,325 | 3,017,582 | | |

Health care expenses increased by $38,992,889 or 5%, from $883,021,602 in 2019 to $881,735,086 in 2020; decrease by 4% due to COVID-19.

The chart below shows the PMPM effect of these costs:

| Health Care Expenses | 2020 | 2019 | 2020 PMPM | 2019 PMPM |
|---|---|---|---|---|
| Medical services | $ 881,735,086 | $ 883,021,602 | $ 292.20 | $ 280.78 |
| Total member months | 3,017,582 | 3,144,859 | | |

***Marketing, General, and Administrative Expenses***

Marketing, general, and administrative expenses decreased by $8,718,997 from $60,606,447 in 2020 to $51,887,450 in 2021, due largely to the termination of Provider Sustainability Fund program.

Marketing, general, and administrative expenses increased by $10,955,588 from $49,650,859 in 2019 to $60,606,447 in 2020, due largely to the unplanned Provider Sustainability Fund payout of $8,400,000.

***Nonoperating Income/Expense***

Nonoperating income/expense represents interest income, unrealized gains and losses resulting from cash held in financial institutions, changes in the market value of investments and investments held for restricted cash balances, contributions received for purposes other than capital asset acquisition, and interest expense.

Nonoperating income decreased by $4,064,197 from $4,651,230 in 2020 to $587,033 in 2021, largely due to decreased investment income, net of unrealized losses.

Nonoperating income decreased by $2,528,069 from $7,179,299 in 2019 to $4,651,230 in 2020, largely due to decreased investment income, net of unrealized losses.

### *Three Year Trend in Net Position*

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | $ 443,614,088 | $ 532,426,398 | $ 448,494,271 |
| Noncurrent assets | 6,622,135 | 10,361,939 | 11,090,134 |
| Net pension asset | - | - | 107,720 |
| Deferred outflows of resources | 4,095,861 | 3,697,546 | 3,453,519 |
| Total assets and deferred outflows of resources | $ 454,332,084 | $ 546,485,883 | $ 463,145,644 |
| **LIABILITIES** | | | |
| Current liabilities | $ 246,803,760 | $ 338,456,574 | $ 280,915,826 |
| Net pension liability | 1,665,176 | 832,801 | - |
| Deferred inflows of resources | 453,106 | 1,021,693 | 1,482,566 |
| Total liabilities and deferred inflows of resources | $ 248,922,042 | $ 340,311,068 | $ 282,398,392 |
| **NET POSITION** | | | |
| Invested in capital assets | $ 6,272,135 | $ 10,011,939 | $ 10,743,207 |
| Restricted assets | 350,000 | 350,000 | 346,927 |
| Unrestricted assets | 198,787,907 | 195,812,876 | 169,657,118 |
| Total net position | $ 205,410,042 | $ 206,174,815 | $ 180,747,252 |
| Total liabilities, deferred inflows of resources, and net position | $ 454,332,084 | $ 546,485,883 | $ 463,145,644 |

### *Changes in Net Assets*

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Total member months | 3,309,325 | 3,017,582 | 3,144,859 |
| Operating revenues | $ 1,192,246,807 | $ 1,015,409,930 | $ 1,027,285,388 |
| Health care expenses | 1,025,108,446 | 881,735,086 | 883,021,602 |
| Marketing, general, and administrative expenses | 51,887,450 | 60,606,447 | 49,650,859 |
| Depreciation and amortization expense | 2,038,101 | 2,192,294 | 2,203,013 |
| Premium tax | 114,564,616 | 50,099,770 | 109,001,668 |
| Total operating expenses | 1,193,598,613 | 994,633,597 | 1,043,877,142 |
| Net (loss) income from operations | (1,351,806) | 20,776,333 | (16,591,754) |
| Nonoperating income, net | 587,033 | 4,651,230 | 7,179,299 |
| Change in net position | $ (764,773) | $ 25,427,563 | $ (9,412,455) |

During the three-year period ended June 30, 2021, overall member months increased 5%, primarily due to year-over-year increase in Medi-Cal member months. During the three-year period ended June 30, 2021, revenue increased 16% due to higher supplemental payments, changes to capitation rates, and changes to the mix of members. During the three-year period ended June 30, 2021, health care expenses increased 16%, as a result of changes in enrollment in all programs. The above factors combined to yield the overall slightly unfavorable change in net position.

During the three-year period ended June 30, 2020, overall member months decreased 6%, primarily due to year over year decreased in Medi-Cal member months. During the three-year period ended June 30, 2020, revenue increased 1% due to higher supplemental payments, changes to capitation rates, and changes to the mix of members. During the three-year period ended June 30, 2020, health care expenses increased 4%, as a result of changes in enrollment in all programs. During the three-year period ended June 30, 2020, marketing, general, and administrative expenses increased 18%, primarily due to the unbudgeted fiscal year 2020 Provider Sustainability Funding payout. The above factors combined to yield the overall favorable change in net position.

As a limited license plan under Knox-Keene Health Care Services Plan Action of 1975, the Alliance is required to maintain a minimum level of tangible net equity and working capital. The required tangible net equity is $36,486,113, $31,962,073, and $32,453,431 at June 30, 2021, 2020, and 2019, respectively. The tangible net equity of the Alliance is $205,410,042, $206,174,815, and $180,747,252, at June 30, 2021, 2020, and 2019, respectively.

The Alliance was in compliance with regulatory tangible net equity and working capital requirements at June 30, 2021, 2020, and 2019.

MOSSADAMS

# Report of Independent Auditors

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

## Report on the Financial Statements

We have audited the accompanying combined statements of net position of the Alameda Alliance for Health and Alameda Alliance Joint Powers Authority (collectively the “Alliance”), as of June 30, 2021 and 2020, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

### *Management’s Responsibility for the Financial Statements*

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

### *Auditor’s Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the California Code of Regulations, Title 2, Section 1131.2, State Controller’s *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatements.

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

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

### *Opinion*

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined net position of Alameda Alliance for Health and Alameda Alliance Joint Powers Authority, as of June 30, 2021 and 2020, and the combined results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### *Other Matter*

*Required Supplementary Information*

The accompanying Management's Discussion and Analysis on pages 1 through 13, supplementary schedule of changes in net pension liability (asset) and related ratios and supplementary schedule of contributions on pages 40 through 41 are not a required part of the combined financial statements but are supplementary information required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context.

The accompanying supplementary statement of revenues and expenses – AC Care Connect on page 42 is not a required part of the combined financial statements but is supplementary information required by the AC Care Connect contract.

This supplementary information is the responsibility of the Alliance's management. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated October 8, 2021, on our consideration of the Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 the Alliance's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
October 8, 2021

# Combined Financial Statements

## Alameda Alliance for Health and
## Alameda Alliance Joint Powers Authority
### Combined Statements of Net Position
### As of June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | |
| Current assets | | |
| Cash and cash equivalents | $ 37,087,423 | $ 40,706,013 |
| Investments | 263,948,313 | 238,969,073 |
| Premiums receivable | 123,244,014 | 242,555,462 |
| Reinsurance recoveries receivable | 4,784,580 | 1,608,233 |
| Other receivables | 8,375,632 | 3,634,309 |
| Prepaid expenses | 6,174,126 | 4,953,308 |
| Total current assets | 443,614,088 | 532,426,398 |
| Noncurrent asset | | |
| Restricted cash | 350,000 | 350,000 |
| Capital assets | | |
| Nondepreciable | 1,557,283 | 1,557,283 |
| Depreciable, net of accumulated depreciation and amortization | 4,714,852 | 8,454,656 |
| Total capital assets | 6,272,135 | 10,011,939 |
| Total assets | 450,236,223 | 542,788,337 |
| Deferred outflows of resources | 4,095,861 | 3,697,546 |
| Total assets and deferred outflows of resources | $ 454,332,084 | $ 546,485,883 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 4,299,139 | $ 2,874,981 |
| Claims payable | 132,104,827 | 88,695,976 |
| Payable to other governmental agencies, hospital fee, and directed payments payables | 94,832,535 | 228,392,300 |
| Other liabilities | 15,567,259 | 18,493,317 |
| Total current liabilities | 246,803,760 | 338,456,574 |
| Net pension liability | 1,665,176 | 832,801 |
| Total liabilities | 248,468,936 | 339,289,375 |
| Deferred inflows of resources | 453,106 | 1,021,693 |
| Net position | | |
| Invested in capital assets | 6,272,135 | 10,011,939 |
| Restricted | | |
| Required by legislative authority | 350,000 | 350,000 |
| Unrestricted | 198,787,907 | 195,812,876 |
| Total net position | 205,410,042 | 206,174,815 |
| Total liabilities, deferred inflows of resources, and net position | $ 454,332,084 | $ 546,485,883 |



See accompanying notes.

## Combined Statements of Revenues, Expenses, and Changes in Net Position
## For the Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| Operating revenues | | |
| Capitation and premium revenue | $ 1,185,508,146 | $ 1,009,502,184 |
| Other revenue | 6,738,661 | 5,907,746 |
| Total operating revenues | 1,192,246,807 | 1,015,409,930 |
| Health care expenses | | |
| Medical services | 1,025,108,446 | 881,735,086 |
| Total health care expenses | 1,025,108,446 | 881,735,086 |
| Marketing, general, and administrative expenses | 51,887,450 | 60,606,447 |
| Depreciation and amortization expense | 2,038,101 | 2,192,294 |
| Premium tax | 114,564,616 | 50,099,770 |
| Total operating expenses | 1,193,598,613 | 994,633,597 |
| Operating (loss) income | (1,351,806) | 20,776,333 |
| Nonoperating income | | |
| Investment income | 587,033 | 4,651,230 |
| Total nonoperating income, net | 587,033 | 4,651,230 |
| Change in net position | (764,773) | 25,427,563 |
| Net position, beginning of year | 206,174,815 | 180,747,252 |
| Net position, end of year | $ 205,410,042 | $ 206,174,815 |

See accompanying notes.

## Alameda Alliance for Health and
## Alameda Alliance Joint Powers Authority
### Combined Statements of Cash Flows
### For the Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| Cash flows provided by operating activities | | |
| Cash received from | | |
| Capitation and premium revenue | $ 1,304,819,594 | $ 950,986,512 |
| Other revenue | 6,804,416 | 6,267,206 |
| Cash paid to providers for | | |
| Medical and hospital expenses | (1,229,823,976) | (879,289,343) |
| Vendors and employees | (59,755,215) | (55,959,254) |
| Net cash provided by operating activities | 22,044,819 | 22,005,121 |
| Cash flows used in capital and related financing activities | | |
| Purchases of furniture and equipment | (1,205,447) | (1,461,026) |
| Net cash used in capital and related financing activities | (1,205,447) | (1,461,026) |
| Cash flows used in investing activities | | |
| Purchase of investments | (1,338,237,657) | (809,592,186) |
| Proceeds from sale of investments | 1,313,192,662 | 793,161,974 |
| Investment income | 587,033 | 4,651,230 |
| Net cash used in investing activities | (24,457,962) | (11,778,982) |
| Net (decrease) increase in cash and cash equivalents | (3,618,590) | 8,765,113 |
| Cash and cash equivalents, beginning of year | 40,706,013 | 31,940,900 |
| Cash and cash equivalents, end of year | $ 37,087,423 | $ 40,706,013 |
| Reconciliation of operating (loss) income to net cash provided by operating activities | | |
| Operating (loss) income | $ (1,351,806) | $ 20,776,333 |
| Adjustments to reconcile operating (loss) income to net cash provided by operating activities | | |
| Depreciation and amortization | 2,038,101 | 2,192,294 |
| Net unrealized losses on investments | 65,755 | 359,460 |
| Net change in operating assets and liabilities | | |
| Premiums receivable | 119,311,448 | (58,515,672) |
| Reinsurance recoveries receivable | (3,176,347) | (1,464,156) |
| Other receivables | (4,741,323) | 1,593,227 |
| Prepaid expenses | (1,220,818) | (712,734) |
| Accounts payable and accrued expenses | 1,424,158 | (4,725,548) |
| Claims payable | 43,408,851 | (6,767,058) |
| Payable to other governmental agencies, hospital fee, and directed payments payables | (130,652,615) | 59,312,571 |
| Other liabilities | (2,926,058) | 9,720,783 |
| Net pension liability | (134,527) | 235,621 |
| Net cash provided by operating activities | $ 22,044,819 | $ 22,005,121 |
| Supplemental cash flow disclosure | | |
| Cash paid during the year for premium tax | $ 132,822,055 | $ 27,002,807 |



See accompanying notes.

**NOTE 1 – ORGANIZATION**

Alameda Alliance for Health is a licensed health maintenance organization that operates in Alameda County (the “County”). The County’s Board of Supervisors established Alameda Alliance for Health in March 1994 in accordance with the State of California Welfare and Institutions Code (the “Code”) Section 14087.54. This legislation provides that the Alliance is a public entity, separate and apart from the County and is not considered an agency, division, or department of the County. Alameda Alliance for Health is not governed by, nor is it subject to, the Charter of the County and is not subject to the County’s policies or operational rules. Alameda Alliance for Health received its Knox-Keene license in September 1995 and commenced operations in January 1996.

Alameda Alliance for Health operates the Alameda Alliance Joint Powers Authority (the “JPA”), a licensed health maintenance organization that operates in the County (collectively the “Alliance”). The County’s Board of Supervisors established the JPA in October 2005 in accordance with Section 14087.54. This legislation provides that the JPA is also a public entity, separate and apart from the County, and is not an agency, division, or department of the County. The JPA is not governed by, nor is it subject to, the Charter of the County and is not subject to the County’s policies or operational rules. The JPA received its Knox-Keene license and commenced operations in December 2005. Alameda Alliance for Health and the JPA have a mutual guarantee agreement, ensuring mutual solvency for the two organizations. In September 2020, both parties agreed to dissolve the JPA and transfer existing business of JPA to Alameda Alliance for Health license. Subsequently, California Department of Managed Care, the licensing body, approved the surrender of its JPA license in July 2021.

The mission and purpose of the Alliance is to improve the quality of life of its members and people throughout its diverse community by collaborating with provider partners in delivering high quality, accessible, and affordable health care services. As participants of the safety-net system, the Alliance recognizes and seeks to collaboratively address social determinants of health as it serves Alameda County. No individual or entity has any ownership interest in the Alliance and all accumulated net position is available to invest in programs consistent with its mission.

Alameda Alliance for Health contracts with the California Department of Health Care Services (“CDHCS”) to receive funding to provide health care services to the Medi-Cal eligible County residents who are enrolled as members of the Alliance (“CDHCS Contract”). The CDHCS Contract specifies capitation rates that may be adjusted annually. CDHCS revenue is paid monthly and is based upon contracted rates and actual Medi-Cal enrollment. Alameda Alliance for Health, in turn, has contracted with hospitals and physicians whereby capitation payments (agreed-upon monthly payments per member) and fee-for-service payments are made in return for contracted health care services for its members. Provider contracts are typically evergreen and contain annual rate change provisions, termination clauses, and risk-sharing provisions.

The original JPA entity contracted with the Public Authority of Alameda County to provide health coverage to In-Home Supportive Service home care workers in the County via the Group Care program. Due to the dissolution of the JPA, Group Care program is assigned to Alameda Alliance for Health with previous contract terms. The contract is automatically renewed on an annual basis, absent adequate written notice to terminate by either party. No written notice of termination was provided by either party during the years ended June 30, 2021 and 2020, except for the change of assignment.

In September 2009, CDHCS implemented Assembly Bill No. 1422 ("AB 1422") or Managed Care Organization ("MCO") premium tax. This program imposes an assessment on Alameda Alliance for Health's capitation and premium revenue. The proceeds from the tax are appropriated from the Children's Health and Human Services Special Fund to the State Department of Health Care Services for specified purposes. This provision was effective retroactively to January 1, 2009, and continued through June 30, 2013. The provisions of AB 1422 were continued, a higher tax rate implemented, and a sales tax replaced the premium tax, via Senate Bill ("SB") 78, beginning July 1, 2013 through June 30, 2016. On March 1, 2016, SB X2-2 established a new MCO provider tax, to be administered by CDHCS, effective July 1, 2016 through July 1, 2019. The tax would be assessed by CDHCS on licensed health care service plans, managed care plans contracted with CDHCS to provide Medi-Cal services, and alternate health care service plans ("AHCSP"), as defined, except as excluded by the bill. This bill would establish applicable taxing tiers and per enrollee amounts for the 2016–2017, 2017–2018, and 2018–2019 fiscal years for Medi-Cal enrollees, AHCSP enrollees, and all other enrollees, as defined. On September 27, 2019, Assembly Bill 115 (Chapter 348, Statutes 2019) authorized DHCS to implement a modified MCO tax model on specified health plans, which was approved by the federal Centers for Medicare & Medicaid Services on April 3, 2020. The effective date range for this approval is January 1, 2020 through December 31, 2022.

Commencing in June 2010, CDHCS implemented a supplemental revenue or intra-governmental transfer program. This program assesses fees on the revenue of participating providers. CDHCS uses these assessments to obtain matching federal funds, which are returned to participating Alliance providers through the Alliance's administration. Alameda Alliance for Health received supplemental medical revenue of $76,642,409 and $63,124,258 for the years ended June 30, 2021 and 2020, respectively, representing the assessment and matching funds, net of MCO premium tax of $0 for the years ended June 30, 2021 and 2020. Related liabilities are recorded under payable to other governmental agencies, hospital fee, and directed payments payables in the combined statements of net position as of June 30, 2021 and 2020.

On September 8, 2010, the California State Legislature ratified Assembly Bill No. 1653, which established a Hospital Quality Assurance Fee ("HQAF") program allowing additional draw down of federal funding to be used for increased payments to general acute care hospitals for inpatient services rendered to Medi-Cal beneficiaries. Pursuant to Section 14167.6 (a), CDHCS increased capitation payments to Medi-Cal managed health care plans retroactive for the months of April 2009 through December 2010. Additionally, Medi-Cal managed care plans are required to adhere to the following regarding the distribution of the increased capitation rates with HQAF funding: Section 14167.6 (h)(1), "Each managed health care plan shall expend 100 percent of any increased capitation payments it receives under this section, on hospital services"; and, Section 14167.10 (a), "Each managed health care plan receiving increased capitation payments under Section 14167.6 shall expend increased capitation payments on hospital services within 30 days of receiving the increased capitation payments." These payments were received and distributed in the manner as prescribed as a pass through to revenue. The payments did have an effect on the overall AB 1422 gross premium tax paid. In April of 2011, California approved SB 90, which extended the HQAF through June 30, 2012. SB 335, signed into law in September of 2011, extended the HQAF portion of SB 90 for an additional 30 months through December 31, 2013. SB 239, signed into law in October of 2013, extended the HQAF portion of SB 90 for an additional 36 months through December 31, 2016. In November of 2016, California approved Proposition 52, which made SB 239 permanent and also created HQAF V. The program period for HQAF V is from January 1, 2017 through June 30, 2019. Alameda Alliance for Health received HQAF payments of $76,015,141 and $52,269,646 for the years ended June 30, 2021 and 2020, respectively, net of MCO premium tax of $0 for the years ended June 30, 2021 and 2020.

Beginning with the July 1, 2017, rating period, CDHCS implemented managed care Directed Payments: 1) Private Hospital Directed Payment ("PHDP"), 2) Designated Public Hospital Enhanced Payment Program ("EPP"), and 3) Designated Public Hospital Quality Incentive Pool ("QIP"). (1) For PHDP, CDHCS will direct Managed Care Plans ("MCP") to reimburse private hospitals as defined in the Welfare and Institutions Code 14169.51, based on actual utilization of contracted services. The enhanced payment is contingent upon hospitals providing adequate access to service, including primary, specialty, and inpatient (both tertiary and quaternary) care. The total funding available for the enhanced contracted payments are limited to a predetermined amount (pool). (2) For EPP Pools, CDHCS has directed MCPs to reimburse California's 21 Designated Public Hospitals and University of California systems (DPHs) for network contracted services, enhanced by either a uniform percentage or dollar increment based on actual utilization of network contracted services. (3) For QIP, CDHCS has directed the MCPs to make QIP payments tied to performance on designated performance metrics in four strategic categories: primary care, specialty care, inpatient care, and resource utilization. The payments are linked to the delivery of services under the MCP contracts and increase the amount of funding tied to quality outcomes. To receive QIP payments, the DPHs must achieve specified improvement targets, which grow more difficult through year-over-year improvement or sustained high performance requirements. The total funding available for the QIP payments will be limited to a predetermined amount (pool).

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting** – Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Alliance's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989, and the California Code of Regulations, Title 2, Section 1131, State Controller's *Minimum Audit Requirements* for California Special Districts and the State Controller's Office prescribed reporting guidelines.

**Proprietary fund accounting** – The Alliance utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and the combined financial statements are prepared using the economic resources measurement focus.

**Basis of combination** – The accompanying combined financial statements include the Alameda Alliance for Health and JPA as both entities are under common management and control. The operations of JPA are included from the date of its inception on December 1, 2005.

**Use of estimates** – The preparation of combined financial statements 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Claims payable, useful lives of fixed assets, premiums receivable, and net pension liability represent significant estimates. Actual results could differ from those estimates.

**Cash and cash equivalents** – The Alliance considers all highly-liquid instruments with a maturity of three months or less at the time of purchase to be cash and cash equivalents. Cash and cash equivalents are carried at cost which approximates fair value. At June 30, 2021 and 2020, the Alliance's cash deposits had carrying amounts of $37,087,423 and $40,706,013, respectively, and bank balances of $43,864,773 and $45,111,217, respectively. Of the bank balances at June 30, 2021 and 2020, $43,570,809 and $44,782,356, respectively, were not covered by federal depository insurance.

**Investments** – The Alliance adopted GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), effective July 1, 2016. GASB 72 requires the Alliance to use valuation techniques that are appropriate under the circumstances and are consistent with the market approach, the cost approach, or the income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

**Concentration of credit risk** – The Alliance is highly dependent upon the State of California for its revenues. Vast majority of accounts receivable and revenue are from the State of California. Loss of the contracts with the State of California due to nonrenewal or legislative decisions that impact program funding or result in discontinuation could materially affect the combined financial position of the Alliance.

As of June 30, 2021 and 2020, the Alliance had premiums receivable of $123,244,014 and $242,555,462 due from the State of California, respectively. For the years ended June 30, 2021 and 2020, the Alliance recognized capitation and premium revenue of $1,158,542,296 and $984,483,191 from the State of California, respectively.

**Restricted cash** – The Alliance is required by the California Department of Managed Health Care to restrict cash having a fair value of at least $300,000 for the payment of member claims in the event of its insolvency. The amounts recorded were $350,000 at June 30, 2021 and 2020. Restricted cash is comprised of U.S. Treasury securities and is stated at fair value.

**Capital assets** – Capital assets include land, building and improvements, furniture and equipment, and computer hardware and software. Capital assets are recorded at cost. Depreciation and amortization of building and improvements, furniture and equipment, computer hardware, and computer software is calculated using the straight-line method over 3 to 40 years, which approximates the estimated useful lives of the assets. The Alliance capitalizes capital expenditures over $5,000, which will have a useful life of three or more years.

The Alliance evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset.

**Net position** – Net position is classified as invested in capital assets, restricted or unrestricted. Invested in capital assets represents investments in land, building and improvements, furniture and equipment, computer hardware, and computer software, net of depreciation and amortization. Restricted net position is for specific operating activities and represents the total cash balances that are restricted in their use as they represent monies received that must only be utilized for a specified purpose. It also pertains to external constraints placed on net position by law. Unrestricted net position consists of net position that does not meet the definition of restricted or invested in capital assets.

**Capitation and premium revenue** – Capitation and premium revenue includes amounts received from the CDHCS for Medi-Cal members and from Alameda County for In-Home Supportive Services ("IHSS") home care workers.

Capitation and premium revenue is recorded as revenue in the month for which enrollees are entitled to health care services. Medi-Cal eligibility of enrollees is determined by Alameda County Social Services Agency and validated by the State of California. The State of California provides the Alliance the validated monthly eligibility file of program enrollees who are continuing, newly added, or terminated from the program in support of capitation revenue for the respective month. A portion of revenues received from the CDHCS is subject to possible retroactive adjustments. Management has made provisions for estimated retroactive adjustments. IHSS eligibility of enrollees is determined by Alameda County Social Services Agency. The County of Alameda provides the Alliance the validated monthly eligibility file of program enrollees who are continuing, newly added, or terminated from the IHSS program. Once Alameda Alliance receives current month enrollment data, AAH issues invoice to Alameda County Social Services for monthly premium revenue.

Effective with the enrollment of the Adult Expansion population per the Affordable Care Act on January 1, 2014, the Alliance is subject to CDHCS requirements to meet a minimum 85% medical loss ratio ("MLR") for this population. Specifically, the Alliance will be required to expend at least 85% of the Medi-Cal capitation revenue received for this population on allowable medical expenses as defined by CDHCS. In the event the Alliance expends less than the 85% requirement, the Alliance will be required to return to CDHCS the difference between the minimum threshold and the actual allowed medical expenses. In 2019, the Alliance made a payment to the CDHCS of $179,309,877 related to the original MLR reporting period of January 2014 to June 2016. At June 30, 2021 and 2020, the accrued payable back to CDHCS, which is included in payable to other governmental agencies, hospital fee, and directed payments payables in the accompanying statements of net position, was $1,000,000 and $11,476,054, respectively.

**Premium deficiencies** – The Alliance performs periodic analyses of its expected future medical expenses and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency reserve is recorded. Management determined that no premium deficiency reserves were needed at June 30, 2021 or 2020.

**Health care expense recognition and claims payable** – The cost of health care services is recognized in the period provided and includes an estimate of the cost of services that have been incurred but not yet reported. The estimate for reserves for claims is based on actuarial projections of hospital and other costs using historical analysis of claims paid and authorization and admission data. Estimates are monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions.

**Operating revenues and expenses** – The Alliance's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. The primary operating revenue is derived from capitation and other sources in support of providing health care services to its members. Operating expenses are all expenses incurred to provide such health care services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities, net interest income, and from contributions received for purposes other than capital asset acquisition.

**Insurance coverage** – The Alliance maintains its general liability insurance coverage through outside insurers in the form of "claims-made" policies. Should the "claims-made" policies not be renewed or replaced with equivalent insurance, claims related to the occurrences during the terms of the "claims-made" policies but reported subsequent to the termination of the insurance contract may be uninsured. These policies were renewed subsequent to year end. Physicians and hospitals that the Alliance contracts with are required to maintain their own malpractice insurance coverage.

**Income taxes** – The Alliance is a public entity established pursuant to Section 14087.54 of the Code and is further subject to the provisions of Ordinance No. 0-94-13 and related resolutions of the Board of Supervisors of the County. As a public entity defined by Internal Revenue Code Section 115, the Alliance is exempt from federal and state income taxes.

**New accounting pronouncements** – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 provides improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which deferred the effective date of GASB 84 to reporting periods beginning after December 15, 2019. The Alliance adopted GASB 84 in the current fiscal year. The adoption of this standard did not have significant impact to the combined financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB 87"). GASB 87 increases the usefulness of 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. GASB 87 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which deferred the effective date of GASB 87 to fiscal years beginning after June 15, 2021. The Alliance is reviewing the impact of the adoption of GASB 87 for the fiscal year ending 2022.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* ("GASB 97"). GASB 97 amends the criteria for reporting governmental fiduciary component units – separate legal entities included in a government's financial statements. GASB 97 clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 for defined contribution plans and to enhance the relevance, consistency, and comparability of the accounting and financial reporting of IRC Code section 457 plans that meet the definition of a pension plan. The Alliance adopted GASB 97 in the current fiscal year. The adoption of this standard did not have significant impact to the combined financial statements.

**NOTE 3 – INVESTMENTS**

At June 30, 2021 and 2020, the Alliance's investments consisted of money market funds, commercial paper, U.S. government agency bonds, corporate bonds, and certificate of deposits.

**Interest rate risk** – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Alliance manages risk of market value fluctuations due to overall changes in the general level of interest rates by complying with California Government Code Section 53600.5. As of June 30, 2021 and 2020, the Alliance's investments all have maturities of less than one year.

**Credit risk** – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. The following are the credit ratings for each investment type at June 30, 2021:

| Description | Fair value | Unrated | Aaa |
|---|---|---|---|
| Investments in: | | | |
| Commercial paper | $ 218,817,617 | $ 64,739,165 | $ 154,078,452 |
| Certificate of deposits | 45,130,696 | 45,130,696 | - |
| Total investments | $ 263,948,313 | $ 109,869,861 | $ 154,078,452 |

The following are the credit ratings for each investment type at June 30, 2020:

| Description | Fair value | Unrated | Aaa |
|---|---|---|---|
| Investments in: | | | |
| Commercial paper | $ 162,860,325 | $ 71,635,325 | $ 91,225,000 |
| Certificate of deposits | 75,925,802 | 75,925,802 | - |
| Money market funds | 182,946 | 182,946 | - |
| Total investments | $ 238,969,073 | $ 147,744,073 | $ 91,225,000 |

**Concentration of credit risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Alliance's investments as a percentage of its portfolio at June 30, 2021, were as follows:

| Investment | Issuer | Percentage of portfolio |
|---|---|---|
| Commercial paper | Various | 83.0 % |
| Certificate of deposits | Various | 17.0 |
| | | 100 % |

The Alliance's investments as a percentage of its portfolio at June 30, 2020, were as follows:

| Investment | Issuer | Percentage of portfolio | |
|---|---|---|---|
| Commercial paper | Various | 68.0 | % |
| Certificate of deposits | Various | 31.0 | |
| Money market funds | | 1.0 | |
| | | 100 | % |

**NOTE 4 – FAIR VALUE**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables present fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis at June 30:

| Description | 2021 |
|---|---|
| Investments and restricted cash not subject to fair value hierarchy | |
| Commercial paper | $ 218,817,617 |
| Certificate of deposits | 45,130,696 |
| U.S. Treasury securities | 350,000 |
| Total investments and restricted cash | $ 264,298,313 |

| **Description** | **2020** |
|---|---|
| Investments and restricted cash not subject to fair value hierarchy | |
| Commercial paper | $ 162,860,325 |
| Certificate of deposits | 75,925,802 |
| Money market funds | 182,946 |
| U.S. Treasury securities | 350,000 |
| Total investments and restricted cash | $ 239,319,073 |

## NOTE 5 – CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended June 30, 2021 and 2020, were as follows:

| | Balance July 1, 2020 | Increases | Decreases | Transfers | Balance June 30, 2021 |
|---|---|---|---|---|---|
| Capital assets | | | | | |
| Land | $ 1,557,283 | $ - | $ - | $ - | $ 1,557,283 |
| Building and improvements | 9,072,277 | 49,181 | (171,104) | - | 8,950,354 |
| Furniture and equipment | 2,465,084 | 1,720 | (774,132) | - | 1,692,672 |
| Computer hardware | 8,288,761 | 1,062,701 | (3,396,106) | - | 5,955,356 |
| Computer software | 20,840,553 | 28,230 | (2,152,588) | - | 18,716,195 |
| Construction in progress | - | 63,615 | - | | 63,615 |
| Total capital assets | 42,223,958 | 1,205,447 | (6,493,930) | - | 36,935,475 |
| Less accumulated depreciation for | | | | | |
| Building and improvements | (5,132,805) | (653,730) | 141,942 | - | (5,644,593) |
| Furniture and equipment | (2,259,218) | (73,522) | 649,606 | - | (1,683,134) |
| Computer hardware | (5,810,106) | (1,025,964) | 2,143,164 | - | (4,692,906) |
| Computer software | (19,009,890) | (284,885) | 652,068 | - | (18,642,707) |
| Total accumulated depreciation | (32,212,019) | (2,038,101) | 3,586,780 | - | (30,663,340) |
| Net capital assets | $ 10,011,939 | $ (832,654) | $ (2,907,150) | $ - | $ 6,272,135 |

| | Balance July 1, 2019 | Increases | Decreases | Transfers | Balance June 30, 2020 |
|---|---|---|---|---|---|
| Capital assets | | | | | |
| Land | $ 1,557,283 | $ - | $ - | $ - | $ 1,557,283 |
| Building and improvements | 8,834,750 | 237,527 | - | - | 9,072,277 |
| Furniture and equipment | 2,410,114 | 54,970 | - | - | 2,465,084 |
| Computer hardware | 7,206,916 | 1,081,845 | - | - | 8,288,761 |
| Computer software | 20,753,869 | 86,684 | - | - | 20,840,553 |
| Total capital assets | 40,762,932 | 1,461,026 | - | - | 42,223,958 |
| Less accumulated depreciation for | | | | | |
| Building and improvements | (4,328,293) | (804,512) | - | - | (5,132,805) |
| Furniture and equipment | (2,183,841) | (75,377) | - | - | (2,259,218) |
| Computer hardware | (4,829,908) | (980,198) | - | - | (5,810,106) |
| Computer software | (18,677,683) | (332,207) | - | - | (19,009,890) |
| Total accumulated depreciation | (30,019,725) | (2,192,294) | - | - | (32,212,019) |
| Net capital assets | $ 10,743,207 | $ (731,268) | $ - | $ - | $ 10,011,939 |

## NOTE 6 – CLAIMS PAYABLE

The Alliance estimates claims payable based on historical claims payment and other relevant information. Estimates are monitored and reviewed, and as settlements are made or estimates are adjusted, differences are reflected in current operation. Such estimates are subject to impact of changes in the regulatory environment. The following is a reconciliation of the claims payable liability for the years ended June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Balance, July 1 | $ 88,695,976 | $ 95,463,034 |
| Incurred - current | 907,307,851 | 710,469,774 |
| Paid | | |
| Current | (773,016,174) | (631,269,347) |
| Prior | (90,882,826) | (85,967,485) |
| Balance, June 30 | $ 132,104,827 | $ 88,695,976 |

As noted in the table above, $907,307,851 and $710,469,774 in medical claims were incurred for the years ended June 30, 2021 and 2020, respectively, which are reflected in medical services in the combined statements of revenues, expenses, and changes in net position.

Claims payable liability increased by $43,408,851 in comparison to the previous year as a result of changes between actual payments for medical services and estimated amounts in previous years. Management believes the increase in estimated prior year's claims experience is largely a result of higher-than-anticipated adverse health care claims experience.

**NOTE 7 – OPERATING LEASES**

The Alliance has entered into various operating lease agreements for office space, which provides for minimum annual rental payments expiring in May of 2025. The total future minimum lease commitments under noncancelable leases at June 30, 2021, are as follows:

| Year Ending June 30, | | |
|---|---|---|
| 2022 | $ | 864,800 |
| 2023 | | 890,023 |
| 2024 | | 916,003 |
| 2025 | | 864,101 |
| | $ | 3,534,927 |

Rent expense was $844,241 and $801,357 for the years ended June 30, 2021 and 2020, respectively, and is included in marketing, general, and administrative expenses in the combined statements of revenues, expenses, and changes in net position.

**NOTE 8 – MEDICAL REINSURANCE (“STOP-LOSS INSURANCE”)**

The Alliance has entered into certain reinsurance (“stop-loss”) agreements with third parties in order to limit its losses on individual claims. Under the terms of these agreements, the third parties will reimburse the Alliance certain proportions of the cost of each member’s hospital, professional, and out-of-area services, excluding those that are capitated, in excess of specified deductibles ranging from $600,000 per contract, up to a maximum of $5,000,000 per member per contract year. Reinsurance premiums are recorded as other health care expenses and recoveries are recorded as a reduction of these expenses. Stop-loss recoveries exceeded premiums by $2,048,340 in 2021. Premiums exceeded stop-loss recoveries by $4,727 in 2020.

**NOTE 9 – EMPLOYEE BENEFIT PLANS**

**Pension Plan**

The Alliance has a defined contribution employee benefit plan (the “Plan”). The Plan is named the Alameda Alliance for Health Money Purchase Pension Plan and is administered by the Alliance. The Board of Governors has the authority to establish and amend benefit provisions and contribution requirements. All employees who have met certain service requirements are eligible to participate. During the years ended June 30, 2021 and 2020, the Alliance contributed 5% of each eligible employee’s gross compensation to certain investment vehicles chosen by the employee. Contributions are subject to limitations on annual compensation and annual contributions per Internal Revenue Code Section 401(a)(17). Contributions to the Plan are made by the Alliance at the discretion of the Board of Governors. Employees do not contribute to this Plan. Employees become vested with respect to the Alliance’s contributions ratably over five years.

**CalPERS Plan**

**Plan description** – Effective January 1, 1999, the Alliance joined the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of the CalPERS annual financial report may be obtained from their Executive Office: 400 Q Street, Sacramento, California 95814.

**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, equal to one full year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS plan provisions and benefits in effect at June 30, 2021 and 2020, are summarized as follows:

| | Hire date prior to January 1, 2013 | Hire date on or after January 1, 2013 |
|---|---|---|
| Benefit formula | 2% at 60 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 to 67 | 52 to 67 |
| Monthly benefits as a % of eligible compensation | 1.1% to 3.1% | 1.0% to 2.6% |
| Required employee contribution rates | 7.0% | 7.0% |
| Required employer contribution rates | 7.985% | 7.985% |

**Employees covered** – At June 30, 2021 and 2020, the following employees were covered by the CalPERS plan:

| | 2021 | 2020 |
|---|---|---|
| Active | 316 | 304 |
| Terminated | 361 | 340 |
| Transferred | 41 | 39 |
| Retired and beneficiaries | 35 | 31 |
| Total participants | 753 | 714 |

**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. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

**Net pension asset/liability** – The Alliance's net pension asset/liability for the CalPERS plan is measured as the total pension liability, less the pension's fiduciary net position. The net pension liability at June 30, 2021 is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020, using standard update procedures. The net pension asset at June 30, 2020 is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension asset/liability is shown below.

The total pension liability in the June 30, 2021, actuarial valuations were determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation date | June 30, 2019 |
| Measurement date | June 30, 2020 |
| Actuarial cost method | Entry age normal |
| Actuarial assumptions | |
| Discount rate | 7.15% |
| Inflation | 2.625% |
| Salary increases | Varies by entry age and service |
| Payroll growth | 2.875% |
| Investment rate of return | 7.25% net of pension plan investment and administrative expenses; includes inflation |
| Mortality rate table | Derived using CalPERS' membership data for all funds |
| Post retirement benefit increase | The lesser of contract COLA or 2.50% until purchasing power protection allowance floor on purchasing power applies; 2.50% thereafter |

The total pension liability in the June 30, 2020, actuarial valuations were determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation date | June 30, 2018 |
| Measurement date | June 30, 2019 |
| Actuarial cost method | Entry age normal |
| Actuarial assumptions | |
| Discount rate | 7.15% |
| Inflation | 2.75% |
| Salary increases | Varies by entry age and service |
| Payroll growth | 3.00% |
| Investment rate of return | 7.375% net of pension plan investment and administrative expenses; includes inflation |
| Mortality rate table | Derived using CalPERS' membership data for all funds |
| Post retirement benefit increase | The lesser of contract COLA or 2.50% until purchasing power protection allowance floor on purchasing power applies; 2.50% thereafter |

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the 2016 and 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study can be obtained at the CalPERS website.

**Change of assumptions** – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), paragraph 68 states that the long-term rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. For the June 30, 2021 and 2020 measurement date, there were changes in demographic assumptions and inflation rate and there were no changes in discount rate.

**Discount rate** – The discount rate used to measure the total pension asset/liability at June 30, 2021 and 2020, was 7.15%, for the CalPERS plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans would run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress-test results are presented in a detailed report called "GASB Crossover Testing Report", which can be obtained from the CalPERS website.

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. Such cash flows were developed assuming that both members and employers will make the required contributions as scheduled in all future years. 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 to 60 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 long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Asset Class | Current Target Allocation | Real Return Years 1 to 10 [(a)] | Real Return Years 11+ [(b)] |
|---|---|---|---|
| Global equity | 50.0% | 4.80% | 5.98% |
| Fixed income | 28.0% | 1.00% | 2.62% |
| Inflation assets | 0.0% | 0.77% | 1.81% |
| Private equity | 8.0% | 6.30% | 7.23% |
| Real estate | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | 0.00% | -0.92% |

[(a)] An expected inflation rate of 2.00% was used for this period
[(b)] An expected inflation rate of 2.92% was used for this period

The changes in the net pension liability for the years ended June 30, 2021 and 2020, were as follows:

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|---|---|---|---|
| Balance at June 30, 2020 | $ 46,262,830 | $ 45,430,029 | $ 832,801 |
| Changes during the year | | | |
| Service cost | 3,861,461 | - | 3,861,461 |
| Interest on the total pension liability | 3,397,686 | - | 3,397,686 |
| Differences between expected and actual experience | (109,296) | - | (109,296) |
| Contributions - employer | - | 2,110,925 | (2,110,925) |
| Contributions - employees | - | 1,912,291 | (1,912,291) |
| Net investment income | - | 2,358,305 | (2,358,305) |
| Benefit payments, including refunds of employee contributions | (1,128,346) | (1,128,346) | - |
| Administrative expense | - | (64,045) | 64,045 |
| Net change in total pension liability | 6,021,505 | 5,189,130 | 832,375 |
| Balance at June 30, 2021 | $ 52,284,335 | $ 50,619,159 | $ 1,665,176 |

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
|---|---|---|---|
| Balance at June 30, 2019 | $ 39,934,477 | $ 40,042,197 | $ (107,720) |
| Changes during the year | | | |
| Service cost | 3,625,677 | - | 3,625,677 |
| Interest on the total pension liability | 2,999,802 | - | 2,999,802 |
| Differences between expected and actual experience | 713,029 | - | 713,029 |
| Contributions - employer | - | 1,984,998 | (1,984,998) |
| Contributions - employees | - | 1,741,232 | (1,741,232) |
| Net investment income | - | 2,700,240 | (2,700,240) |
| Benefit payments, including refunds of employee contributions | (1,010,155) | (1,010,155) | - |
| Administrative expense | - | (28,575) | 28,575 |
| Other miscellaneous income | - | 92 | (92) |
| Net change in total pension liability | 6,328,353 | 5,387,832 | 940,521 |
| Balance at June 30, 2020 | $ 46,262,830 | $ 45,430,029 | $ 832,801 |

**Sensitivity of the proportionate share of the net pension liability to changes in the discount rate** – The following presents the net pension liability for the CalPERS plan, calculated using the discount rate, as well as what the net pension liability (asset) 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.

| | June 30, 2021 | | |
|---|---|---|---|
| | 1% Decrease (6.15%) | Current Discount Rate (7.15%) | 1% Increase (8.15%) |
| Net pension liability (asset) | $ 10,077,007 | $ 1,665,176 | $ (5,104,651) |

| | June 30, 2020 | | |
|---|---|---|---|
| | 1% Decrease (6.15%) | Current Discount Rate (7.15%) | 1% Increase (8.15%) |
| Net pension liability (asset) | $ 8,284,994 | $ 832,801 | $ (5,160,875) |

**Pension plan fiduciary net position** – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**Pension expense and deferred outflows/inflows of resources related to pensions** – For the year ended June 30, 2021, the Alliance recognized pension expense of $1,719,096, included in marketing, general, and administrative expenses. At June 30, 2021, the Alliance reported deferred outflows of resources and deferred inflows of resources related to the CalPERS plan from the following sources:

| | | |
|---|---|---|
| Deferred outflows of resources as of June 30, 2021 | | |
| Changes of assumptions | $ | 477,109 |
| Differences between expected and actual experience | | 469,833 |
| Net difference between projected and actual earnings on pension plan investments | | 542,242 |
| Total | $ | 1,489,184 |
| Deferred inflows of resources as of June 30, 2021 | | |
| Differences between expected and actual experience | $ | (158,960) |
| Changes of assumptions | | (294,146) |
| Total | $ | (453,106) |
| Contributions between the measurement date and fiscal year end recognized as deferred outflows of resources | $ | 2,606,677 |

For the year ended June 30, 2020, the Alliance recognized pension expense of $1,752,612, included in marketing, general, and administrative expenses. At June 30, 2020, the Alliance reported deferred outflows of resources and deferred inflows of resources related to the CalPERS plan from the following sources:

| | | |
|---|---|---|
| Deferred outflows of resources as of June 30, 2020 | | |
| Changes of assumptions | $ | 910,846 |
| Differences between expected and actual experience | | 632,447 |
| Total | $ | 1,543,293 |
| Deferred inflows of resources as of June 30, 2020 | | |
| Differences between expected and actual experience | $ | (293,129) |
| Changes of assumptions | | (608,232) |
| Net difference between projected and actual earnings on pension plan investments | | (120,332) |
| Total | $ | (1,021,693) |
| Contributions between the measurement date and fiscal year end recognized as deferred outflows of resources | $ | 2,154,253 |

The Alliance reported $2,606,677 and $2,154,253 as deferred outflows of resources related to contributions made subsequent to the measurement date for the years ended June 30, 2021 and 2020, respectively. This amount will be recognized as a reduction/increase of net pension liability for the measurement period ended June 30, 2020 and 2019, respectively. Other amounts reported as deferred outflows and deferred inflows of resources related to the CalPERS plan will be recognized in future pension expense as follows:

| Year Ending June 30, | | |
|---|---|---|
| 2022 | $ | 257,983 |
| 2023 | $ | 364,731 |
| 2024 | $ | 178,152 |

At June 30, 2021 and 2020, the Alliance had no outstanding amount of contributions to the pension plan required for the years ended June 30, 2021 and 2020.

**Deferred Compensation Plan** – The Alliance offers its employees a deferred compensation plan with Voya Financial created in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all employees and permits them to defer a portion of their salary. No employer contribution to the plan is required. Deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

## NOTE 10 – TANGIBLE NET EQUITY

As a limited license plan under Knox-Keene Health Care Services Plan Act of 1975, the Alliance is required to maintain a minimum level of tangible net equity and working capital. The required tangible net equity is $36,486,113 and $31,962,073 at June 30, 2021 and 2020, respectively. The tangible net equity of the Alliance is $205,410,042 and $206,174,815 at June 30, 2021 and 2020, respectively. At June 30, 2021 and 2020, management believes the Alliance was in compliance with their tangible net equity regulatory requirement.

## NOTE 11 – RISK MANAGEMENT

The Alliance is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; employee injuries and illness; natural disasters; and employee health, dental, and accident benefits. The Alliance carries commercial insurance for claims arising from such matters, and no settled claims have ever exceeded the Alliances' commercial coverage.

## NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Alliance is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time after consultation with legal counsel, it is management's opinion that the liability, if any, from these actions will not have a material adverse effect on the Alliance's combined financial position or results of operations.

**NOTE 13 – HEALTH CARE REFORM**

The Patient Protection and Affordable Care Act ("PPACA") allowed for the expansion of Medi-cal members in the State of California. Any further changes in federal or state funding could have an impact on the Alliance. The future of the PPACA and the impact of future changes in Medicaid to the Alliance is uncertain at this time.

# Supplementary Information

# Alameda Alliance for Health and
# Alameda Alliance Joint Powers Authority
## Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Measurement period | 2019-2020 | 2018-2019 | 2017-2018 | 2016-2017 | 2015-2016 | 2014-2015 |
| **Total pension liability** | | | | | | |
| Service cost | $ 3,861,461 | $ 3,625,677 | $ 3,233,750 | $ 2,936,812 | $ 2,378,725 | $ 2,192,498 |
| Interest on total pension liability | 3,397,686 | 2,999,802 | 2,582,178 | 2,275,291 | 2,016,770 | 1,844,544 |
| Changes of assumptions | - | - | (386,048) | 2,212,057 | - | (545,758) |
| Difference between expected and actual experience | (109,296) | 713,029 | 102,040 | (731,181) | (1,285,655) | (97,677) |
| Benefit payments, including refunds of employee contributions | (1,128,346) | (1,010,155) | (757,893) | (811,011) | (581,326) | (604,984) |
| Net change in total pension liability | 6,021,505 | 6,328,353 | 4,774,027 | 5,881,968 | 2,528,514 | 2,788,623 |
| Total pension liability beginning of fiscal year | 46,262,830 | 39,934,477 | 35,160,450 | 29,278,482 | 26,749,968 | 23,961,345 |
| Total pension liability end of fiscal year | $ 52,284,335 | $ 46,262,830 | $ 39,934,477 | $ 35,160,450 | $ 29,278,482 | $ 26,749,968 |
| **Plan fiduciary net position** | | | | | | |
| Contributions - employer | $ 2,110,925 | $ 1,984,998 | $ 1,854,342 | $ 1,541,099 | $ 1,252,041 | $ 1,099,813 |
| Contributions - employee | 1,912,291 | 1,741,232 | 1,583,972 | 1,373,631 | 1,157,507 | 1,054,870 |
| Net investment income | 2,358,305 | 2,700,240 | 2,987,504 | 3,330,394 | 153,646 | 571,106 |
| Benefit payments, including refunds of employee contributions | (1,128,346) | (1,010,155) | (757,893) | (811,011) | (581,326) | (604,984) |
| Net plan to plan resource movement | - | - | (92) | - | - | - |
| Administrative expense | (64,045) | (28,575) | (53,808) | (43,022) | (16,561) | (30,578) |
| Other miscellaneous income (expense) | - | 92 | (102,182) | - | - | - |
| Net change in fiduciary net position | 5,189,130 | 5,387,832 | 5,511,843 | 5,391,091 | 1,965,307 | 2,090,227 |
| Plan fiduciary net position beginning of fiscal year | 45,430,029 | 40,042,197 | 34,530,354 | 29,139,263 | 27,173,956 | 25,083,729 |
| Plan fiduciary net position end of fiscal year | $ 50,619,159 | $ 45,430,029 | $ 40,042,197 | $ 34,530,354 | $ 29,139,263 | $ 27,173,956 |
| **Plan net pension liability (asset)** | $ 1,665,176 | $ 832,801 | $ (107,720) | $ 630,096 | $ 139,219 | $ (423,988) |
| **Plan fiduciary net position as a percentage of the total pension liability** | 96.82% | 98.20% | 100.27% | 98.21% | 99.52% | 101.59% |
| **Covered employee payroll** | $ 26,466,489 | $ 24,934,165 | $ 22,106,576 | $ 19,552,678 | $ 17,110,667 | $ 15,964,019 |
| **Plan net pension liability (asset) as a percentage of covered payroll** | 6.29% | 3.34% | -0.49% | 3.22% | 0.81% | -2.66% |

## Schedule of Pension Contributions

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Measurement period | 2019-2020 | 2018-2019 | 2017-2018 | 2016-2017 | 2015-2016 | 2014-2015 |
| Actuarially determined contribution | $ 2,110,925 | $ 1,984,998 | $ 1,854,342 | $ 1,541,099 | $ 1,252,041 | $ 1,099,813 |
| Contributions in relation to the actuarially determined contribution | (2,110,925) | (1,984,998) | (1,854,342) | (1,541,099) | (1,252,041) | (1,099,813) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - |
| **Covered employee payroll** | $ 26,466,489 | $ 24,934,165 | $ 22,106,576 | $ 19,552,678 | $ 17,110,667 | $ 19,552,678 |
| **Contributions as a percentage of covered employee payroll** | 7.98% | 7.96% | 8.39% | 7.88% | 7.32% | 6.89% |

## Alameda Alliance for Health and
## Alameda Alliance Joint Powers Authority
### Statement of Revenues and Expenses – AC Care Connect
### For the Years Ended June 30, 2021 and 2020

Contract Number: 15764
Contract Amount: $8,684,669
Contract Period: July 1, 2019 - December 31, 2021

| | **2021*** |
|---|---|
| Revenues | |
| Care Connect revenue (95%) | $ 810,972 |
| Care Connect administrative revenue (5%) | 719,560 |
| Total revenues | 1,530,532 |
| Expenses | |
| Care Connect CB-CME payments | 810,972 |
| Total expenses | 810,972 |
| Net income | $ 719,560 |

* Amounts shown are for the period July 1, 2020 - June 30, 2021.

Contract Number: 15764
Contract Amount: $8,684,669
Contract Period: July 1, 2019 - December 31, 2021

| | **2020*** |
|---|---|
| Revenues | |
| Care Connect revenue (95%) | $ 692,417 |
| Care Connect administrative revenue (5%) | 712,526 |
| Total revenues | 1,404,943 |
| Expenses | |
| Care Connect CB-CME payments | 692,417 |
| Total expenses | 692,417 |
| Net income | $ 712,526 |

* Amounts shown are for the period July 1, 2019 - June 30, 2020.

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# Report of Independent Auditors 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 Governors
Alameda Alliance for Health and
Alameda Alliance Joint Powers Authority

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 combined financial statements of Alameda Alliance for Health and Alameda Alliance Joint Powers Authority (collectively the “Alliance”), which comprise the combined statement of net position as of June 30, 2021, and the related combined statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements and have issued our report thereon dated October 8, 2021.

## Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Alliance’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alliance’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Alliance’s internal control.

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

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alliance's combined 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

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

Moss Adams LLP

San Francisco, California
October 8, 2021

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