

Regular Meeting of the

**Santa Clara County Health Authority
Executive/Finance Committee**

Thursday, October 24, 2019, 11:30 AM - 1:30 PM

Santa Clara Family Health Plan, Boardroom

6201 San Ignacio Ave, San Jose, CA 95119

AGENDA

- | | | | |
|--|----------------|-------|--------|
| 1. Roll Call | Mr. Brownstein | 11:30 | 5 min |
| 2. Public Comment
Members of the public may speak to any item on the agenda; two minutes per speaker. The Executive/Finance Committee reserves the right to limit the duration of the public comment period to 30 minutes. | Mr. Brownstein | 11:35 | 5 min |
| 3. Fiscal Year 2018-19 External Independent Auditor's Report
Discuss draft FY2018-19 External Independent Auditor's Report including Board Communication Letter and Audited Financial Statements
Possible Action: Approve FY2018-19 External Independent Auditor's report

<u>Announcement Prior to Recessing into Closed Session</u>
Announcement that the Executive/Finance Committee will recess into Closed Session to discuss Item 4 below. | Moss Adams | 11:40 | 20 min |
| 4. Adjourn to Closed Session | | 12:00 | 25 min |
| a. <u>Real Property Negotiations</u> (Government Code Section 54956.8):
It is the intention of the Executive/Finance Committee to meet in Closed Session to confer with its Real Property Negotiators concerning the price and terms of payment related to the possible lease of real property located at 408 N. Capital Avenue, San Jose, CA. The negotiators for the Health Authority are Dave Cameron, CFO, and Christine Tomcala, CEO. The other negotiating party is Capitol Square Partners. | | | |
| b. <u>Contract Rates</u> (Welfare and Institutions Code Section 14087.38(n)):
It is the intention of the Executive/Finance Committee to meet in Closed Session to discuss plan partner rates. | | | |
| 5. Report from Closed Session | Mr. Brownstein | 12:25 | 5 min |

<p>6. Meeting Minutes Review meeting minutes of the August 22, 2019 Executive/Finance Committee. Possible Action: Approve August 22, 2019 Executive/Finance Committee Minutes</p>	<p>Mr. Brownstein</p>	<p>12:30 5 min</p>
<p>7. August 2019 Financial Statements Review August 2019 Financial Statements. Possible Action: Approve the August 2019 Financial Statements</p>	<p>Mr. Cameron</p>	<p>12:35 10 min</p>
<p>8. Compliance Update Discuss audit activity and corrective action plan progress. Possible Action: Accept Compliance Update</p>	<p>Ms. Larmer</p>	<p>12:45 10 min</p>
<p>9. CEO Update Discuss status of current topics and initiatives. Possible Action: Accept CEO Update</p>	<p>Ms. Tomcala</p>	<p>12:55 5 min</p>
<p>10. Adjournment</p>	<p>Mr. Brownstein</p>	<p>1:00</p>

Notice to the Public—Meeting Procedures

- Persons wishing to address the Committee on any item on the agenda are requested to advise the Recorder so that the Chairperson can call on them when the item comes up for discussion.
- The Committee may take other actions relating to the issues as may be determined following consideration of the matter and discussion of the possible action.
- In compliance with the Americans with Disabilities Act, those requiring accommodations in this meeting should notify Rita Zambrano 48 hours prior to the meeting at 408-874-1842.
- To obtain a copy of any supporting document that is available, contact Rita Zambrano at 408-874-1842. Agenda materials distributed less than 72 hours before a meeting can be inspected at the Santa Clara Family Health Plan offices at 6201 San Ignacio Ave, San Jose, CA 95119.
- This agenda and meeting documents are available at www.scfhp.com

FINAL DRAFT

*Report of Independent Auditors and
Combined Financial Statements*

**Santa Clara County Health Authority
(dba Santa Clara Family Health Plan) and
Santa Clara Community Health Authority**

June 30, 2019 and 2018

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT AUDITORS	8
COMBINED FINANCIAL STATEMENTS	
Combined Statements of Net Position.....	11
Combined Statements of Revenues, Expenses, and Changes in Net Position.....	12
Combined Statements of Cash Flows.....	13
Notes to Combined Financial Statements.....	14
SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the Net Pension Asset/Liability.....	37
Schedule of Pension Contributions.....	38
Schedule of Changes in Net Other Post-Employment Benefit Liability.....	39
Schedule of Other Post-Employment Benefit Contributions.....	40

Management's Discussion and Analysis

FINAL DRAFT

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority Management's Discussion and Analysis June 30, 2019, 2018, and 2017

INTRODUCTION:

In accordance with the Governmental Accounting Standards Board Codification Section 2200, Comprehensive Annual Financial Report, the management of the Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority, (the "JPA") (collectively, the "Health Authority") has prepared this discussion and analysis to provide readers and interested parties with an overview of the organizations' financial activities for the fiscal years ended June 30, 2019, 2018, and 2017. This discussion should be reviewed in conjunction with the Health Authority's combined financial statements and accompanying notes to enhance the reader's understanding of the Health Authority's financial performance.

ORGANIZATION:

Santa Clara County Health Authority is a licensed health maintenance organization that operates in Santa Clara County (the "County"). The County's Board of Supervisors established Santa Clara County Health Authority in August 1995 in accordance with the State of California Welfare and Institutions Code (the "Code") Section 14087.38. During 1996, the Health Authority obtained licensure under the Knox-Keene Health Care Services Plan Act of 1975 and commenced operations.

The JPA is 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 the Code Section 14087.54. During 2006, the JPA obtained licensure under the Knox-Keene Health Care Services Plan Act of 1975 and commenced operations. The Health Authority has advised the California Department of Managed HealthCare ("DMHC") of its intent to surrender the JPA's license as of December 31, 2019.

OVERVIEW OF FINANCIAL STATEMENTS:

The Health Authority's annual combined financial report consists of three statements – Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows and accompanying notes. The statements report the following financial information:

- The combined Statements of Net Position present the Health Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.
- The combined Statements of Revenues, Expenses, and Changes in Net Position present the results of operations during the fiscal years and the resulting changes in net position.
- The combined Statements of Cash Flows identify sources and uses of cash from operating activities, capital and financing activities, and investing activities.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Management's Discussion and Analysis
June 30, 2019, 2018, and 2017**

The following discussion and analysis addresses the Health Authority's overall program activities.

FINANCIAL HIGHLIGHTS:

- Total enrollment decreased 4.0% to 249,206 members at June 30, 2019, from 259,475 members at June 30, 2018. Total enrollment decreased 6.0% to 259,475 members at June 30, 2018, from 276,028 members at June 30, 2017.
- Net position increased by \$24,108,887 to \$202,124,752 for the fiscal year ended June 30, 2019, from \$178,015,865 for the fiscal year ended June 30, 2018, due to operating income of \$18,297,260 and nonoperating income of \$5,811,627. Net position increased by \$19,635,304 to \$178,015,865 for the fiscal year ended June 30, 2018, from \$158,380,561 for the fiscal year ended June 30, 2017, due to operating income of \$15,867,109 and nonoperating income of \$3,768,195.
- Total assets and deferred outflows of resources increased to \$1,009,258,566 as of June 30, 2019, from \$763,293,226 as of June 30, 2018. Total assets and deferred outflows of resources decreased to \$763,293,226 as of June 30, 2018, from \$866,340,704 as of June 30, 2017.
- Total liabilities and deferred inflows of resources increased to \$897,133,814 at June 30, 2019, from \$585,277,361 at June 30, 2018. Total liabilities and deferred inflows of resources decreased to \$585,277,361 at June 30, 2018, from \$707,960,143 at June 30, 2017.
- The current ratio (current assets divided by current liabilities) of 1.19 as of June 30, 2019, reflected a decrease from 1.26 at June 30, 2018. The current ratio (current assets divided by current liabilities) of 1.26 as of June 30, 2018, reflected an increase from 1.22 at June 30, 2017.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Management's Discussion and Analysis
June 30, 2019, 2018, and 2017**

CONDENSED COMBINED STATEMENTS OF NET POSITION:

	June 30			2019 to 2018 Change		2018 to 2017 Change	
	2019	2018	2017	Amount	% Change	Amount	% Change
Assets:							
Current assets	\$ 1,060,344,723	\$ 724,183,257	\$ 846,240,713	\$ 336,161,466	46.4%	\$ (122,057,456)	-14.4%
Capital assets	27,392,240	24,269,369	10,507,128	3,122,871	12.9%	13,762,241	131.0%
Other assets	2,283,994	305,350	305,350	1,978,644	648.0%	-	0.0%
Total assets	1,090,020,957	748,757,976	857,053,191	341,262,981	45.6%	(108,295,215)	-12.6%
Deferred outflows of resources	9,237,609	14,535,250	9,287,513	(5,297,641)	-36.4%	5,247,737	56.5%
Total assets and deferred outflows of resources	\$ 1,099,258,566	\$ 763,293,226	\$ 866,340,704	\$ 335,965,340	44.0%	\$ (103,047,478)	-11.9%
Liabilities:							
Current liabilities	\$ 891,448,830	\$ 574,535,150	\$ 695,799,085	\$ 316,913,680	55.2%	\$ (121,263,935)	-17.4%
Noncurrent liabilities	2,539,090	6,533,514	11,675,729	(3,994,424)	-61.1%	(5,142,215)	-44.0%
Total liabilities	893,987,920	581,068,664	707,474,814	312,919,256	53.9%	(126,406,150)	-17.9%
Deferred inflow of resources	3,145,894	4,208,697	485,329	(1,062,803)	-25.3%	3,723,368	767.2%
Net position:							
Net investment in capital assets	27,392,240	24,269,369	10,507,128	3,122,871	12.9%	13,762,241	131.0%
Restricted	305,350	305,350	305,350	-	0.0%	-	0.0%
Unrestricted:							
Designated by Board of Governors	2,200,000	-	-	2,200,000	100.0%	-	0.0%
Unrestricted	172,227,162	153,441,146	147,568,083	18,786,016	12.2%	5,873,063	4.0%
Total net position	202,124,752	178,015,865	158,380,561	24,108,887	13.5%	19,635,304	12.4%
Total liabilities, deferred inflows of resources, and net position	\$ 1,099,258,566	\$ 763,293,226	\$ 866,340,704	\$ 335,965,340	44.0%	\$ (103,047,478)	-11.9%

Assets and Deferred Outflows of Resources

For the fiscal year ended June 30, 2019, assets increased \$341,262,981 or 45.6% due primarily to the accrual of receivables for fiscal year 2018 hospital directed payments, which were received after the end of the fiscal year. During the same period, deferred outflows of resources decreased \$5,297,641 or 36.4% due to the timing of amounts attributable to employee retirement plans.

For the fiscal year ended June 30, 2018, assets decreased \$108,295,215 or 12.6% due primarily to repayment to the Department of Health Care Services ("DHCS") of prior years' Med-Cal Expansion ("MCE") rate overpayments. During the same period, deferred outflows of resources increased \$5,247,737 or 56.5% due to the timing of amounts attributable to employee retirement plans.

Liabilities and Deferred Inflows of Resources

For the fiscal year ended June 30, 2019, liabilities increased \$312,919,256 or 53.9% due primarily to the accrual of payables for fiscal year 2018 hospital directed payments. During the same period, deferred inflows of resources decreased \$1,062,803 or 25.3% due to the timing of amounts attributable to employee retirement plans.

For the fiscal year ended June 30, 2018, liabilities decreased \$126,406,150 or 17.9% due primarily to repayment to DHCS of prior years' MCE rate overpayments. During the same period, deferred inflows of resources increased \$3,723,368 or 767.2% due to the timing of amounts attributable to employee retirement plans.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Management's Discussion and Analysis
June 30, 2019, 2018, and 2017**

Tangible Net Equity

The Health Authority is required to maintain a minimum level of tangible net equity ("TNE") per its contract with DHCS. TNE is defined as the excess of total assets over total liabilities, excluding subordinated liabilities and intangible assets, if any. The Health Authority's TNE was \$202,124,752, \$178,015,865, and \$158,380,561 at June 30, 2019, 2018, and 2017, respectively. The Health Authority exceeded the minimum required TNE levels at all times during the three fiscal years.

CONDENSED COMBINED RESULTS OF OPERATIONS:

	Fiscal Year			2019 to 2018 Change		2018 to 2017 Change	
	2019	2018	2017	Amount	% Change	Amount	% Change
Year end membership:							
Medi-Cal	237,698	248,776	265,753	(11,078)	-4.5%	(16,977)	-6.4%
Medicare	8,022	7,503	7,543	519	6.9%	(40)	-0.5%
Healthy Kids	3,486	3,196	2,732	290	9.1%	464	17.0%
Total year end membership	<u>249,206</u>	<u>259,475</u>	<u>276,028</u>	<u>(10,269)</u>	<u>-4.0%</u>	<u>(16,553)</u>	<u>-6.0%</u>
Annual member months:							
Medi-Cal	2,904,840	3,090,265	3,568,375	(185,425)	-6.0%	(478,110)	-13.4%
Medicare	92,838	96,513	92,374	(3,675)	-3.8%	4,139	4.5%
Healthy Kids	40,083	33,830	35,667	6,253	18.5%	(1,837)	-5.2%
Total annual member months	<u>3,037,761</u>	<u>3,220,608</u>	<u>3,696,416</u>	<u>(182,847)</u>	<u>-5.7%</u>	<u>(475,808)</u>	<u>-12.9%</u>
Operating revenues:							
Capitation and premium revenue	\$ 1,161,897,093	\$ 1,329,112,179	\$ 1,373,491,475	\$ (167,215,086)	-12.6%	\$ (44,379,296)	-3.2%
Total operating revenues	<u>1,161,897,093</u>	<u>1,329,112,179</u>	<u>1,373,491,475</u>	<u>(167,215,086)</u>	<u>-12.6%</u>	<u>(44,379,296)</u>	<u>-3.2%</u>
Operating expenses:							
Medical expenses	979,948,153	1,162,181,837	1,167,862,922	(182,233,684)	-15.7%	(5,681,085)	-0.5%
General and administrative expenses	54,419,879	45,893,851	45,357,972	8,526,028	18.6%	535,879	1.2%
Depreciation	3,816,251	3,548,003	1,985,807	268,248	7.6%	1,562,196	78.7%
Premium tax	105,415,550	101,621,379	101,463,280	3,794,171	3.7%	158,099	0.2%
Total operating expenses	<u>1,143,599,833</u>	<u>1,313,245,070</u>	<u>1,316,669,981</u>	<u>(169,645,237)</u>	<u>-12.9%</u>	<u>(3,424,911)</u>	<u>-0.3%</u>
Operating income	18,297,260	15,867,109	56,821,494	2,430,151	15.3%	(40,954,385)	-72.1%
Nonoperating revenues:							
Interest income	5,811,627	3,768,195	1,265,612	2,043,432	54.2%	2,502,583	197.7%
Changes in net position	24,108,887	19,635,304	58,087,106	4,473,583	22.8%	(38,451,802)	-66.2%
Net position, beginning of year	178,015,865	158,380,561	100,293,455	19,635,304	12.4%	58,087,106	57.9%
Net position, end of year	<u>\$ 202,124,752</u>	<u>\$ 178,015,865</u>	<u>\$ 158,380,561</u>	<u>\$ 24,108,887</u>	<u>13.5%</u>	<u>\$ 19,635,304</u>	<u>12.4%</u>

Membership and Enrollment

During the fiscal year ended June 30, 2019, the Health Authority experienced a decrease in enrollment of 4.0% predominately in the Medi-Cal program.

During the fiscal year ended June 30, 2018, the Health Authority experienced a decrease in enrollment of 6.0% predominately in the Medi-Cal program.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Management's Discussion and Analysis
June 30, 2019, 2018, and 2017**

Operating Revenue

During the fiscal year ended June 30, 2019, operating revenues decreased by \$167,215,086 or 12.6% to \$1,161,897,093 versus the prior year operating revenue of \$1,329,112,179. Much of the decrease was attributable to the phase-out of In-Home Supportive Services ("IHSS") from the Coordinated Care Initiative ("CCI"), which entail the Medi-Cal Dual Managed Long-Term Services & Supports ("MLTSS") and the Cal MediConnect ("CMC") programs, effective January 1, 2018.

During the fiscal year ended June 30, 2018, operating revenues decreased by \$44,379,296 or 3.2% to \$1,329,112,179 versus the prior year operating revenue of \$1,373,491,475. Much of the decrease was attributable to the phase-out of IHSS from the CCI, which entail the MLTSS and the CMC program, effective January 1, 2018.

Medical Expenses

During the fiscal year ended June 30, 2019, medical expenses decreased by \$182,233,684 or 15.7% to \$979,948,153 versus the prior year of \$1,162,181,837. Much of the decrease was attributable to the phase-out of IHSS from the CCI, which entail the MLTSS and the CMC program, effective January 1, 2018.

During the fiscal year ended June 30, 2018, medical expenses decreased by \$5,681,085 or 0.5% to \$1,162,181,837 versus the prior year of \$1,167,862,922. Much of the decrease was attributable to the phase-out of IHSS from the CCI, which entail the MLTSS and the CMC program, effective January 1, 2018.

The Health Authority's medical loss ratio ("MLR"), or medical expenses as a percentage of capitation and premium revenue (less contra-revenue premium tax), was 92.8%, 94.7%, and 91.8% for the fiscal years ended June 30, 2019, 2018, and 2017, respectively.

Premium Deficiency Reserve

During the fiscal year ended June 30, 2019, management maintained its estimated premium deficiency reserve ("PDR") on the CMC contract at \$8,294,025 for fiscal year 2020 due to continuing uncertainties about final rate recasts for multiple fiscal years, shared risk corridor payments, and hierarchical condition category ("HCC") risk adjustments, for which management cannot fully quantify the likelihood of these impacts.

During the fiscal year ended June 30, 2018, management maintained its estimated PDR on the CMC contract at \$8,294,025 for fiscal year 2019 due to continuing uncertainties about final rate recasts for multiple fiscal years, shared risk corridor payments and HCC risk adjustments, for which management cannot fully quantify the likelihood of these impacts.

General and Administrative Expenses

During the fiscal year ended June 30, 2019, administrative expenses increased by \$8,526,028 or 18.6% to \$54,419,879 versus the prior year expense of \$45,893,851 due to increased staffing, contracted services, and printing and postage expenses.

During the fiscal year ended June 30, 2018, administrative expenses increased by \$535,879 or 1.2% to \$45,893,851 versus the prior year expense of \$45,357,972 due to general cost increases.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Management's Discussion and Analysis
June 30, 2019, 2018, and 2017**

The Health Authority's administrative loss ratio ("ALR"), or general and administrative (including depreciation and amortization expense) as a percentage of capitation and premium revenue (including contra-revenue premium tax), was 5.5%, 4.0%, and 3.7% for the fiscal years ended June 30, 2019, 2018, and 2017, respectively.

CONDENSED COMBINED CASH FLOW INFORMATION:

The table below summarizes the major sources and uses of cash and cash equivalents for the fiscal years ended June 30, 2019, 2018, and 2017:

	As of June 30			2019 to 2018 Change		2018 to 2017 Change	
	2019	2018	2017	Amount	% Change	Amount	% Change
	Cash flows from operating activities	\$ 75,870,490	\$ (130,630,635)	\$ 224,795,253	\$ 206,501,125	-158.1%	\$ (355,425,888)
Cash flows from capital and financing activities	(6,415,822)	(13,590,598)	(7,533,687)	7,174,776	-52.8%	(6,056,911)	80.4%
Cash flows from investing activities	5,811,627	3,768,195	1,265,612	2,043,432	54.2%	2,502,583	197.7%
Net change in cash and cash equivalents	75,266,295	(140,453,038)	218,527,178	215,719,333	-153.6%	(358,980,216)	-164.3%
Cash and cash equivalents, beginning of year	223,850,859	364,303,897	145,776,719	(140,453,038)	-38.6%	218,527,178	149.9%
Cash and cash equivalents, end of year	\$ 299,117,154	\$ 223,850,859	\$ 364,303,897	\$ 75,266,295	33.6%	\$ (140,453,038)	-38.6%

The Health Authority considers all highly liquid instruments with a maturity of three months or less to be cash and cash equivalents. The Health Authority invests excess cash in the Santa Clara County Investment Pool, which can be withdrawn on demand.

CONDENSED CAPITAL ASSET INFORMATION:

The table below summarizes the major changes in capital assets for the fiscal years ended June 30, 2019, 2018, and 2017. Capital assets largely included furniture and fixtures, computer hardware and software, and leasehold improvements:

	Fiscal Year Ended June 30,			2019 to 2018 Change		2018 to 2017 Change	
	2019	2018	2017	Amount	% Change	Amount	% Change
	Beginning balance, net	\$ 24,269,369	\$ 10,507,128	\$ 4,941,914	\$ 13,762,241	131.0%	\$ 5,565,214
Additions	6,941,405	17,365,176	7,795,195	(10,423,771)	-60.0%	9,569,981	122.8%
Reductions/adjustments	(2,283)	(54,932)	(244,174)	52,649	-95.8%	189,242	-77.5%
Depreciation expense	(3,816,251)	(3,548,003)	(1,985,807)	(268,248)	7.6%	(1,562,196)	78.7%
Ending balance, net	\$ 27,392,240	\$ 24,269,369	\$ 10,507,128	\$ 3,122,871	12.9%	\$ 13,762,241	131.0%

KEY FACTORS INFLUENCING THE FISCAL YEAR 2019-2020 BUDGET:

In June 2019, the Health Authority's Governing Board formally approved operating and capital budgets for the fiscal year ending June 30, 2020. The operating budget anticipates a 4.5% reduction in enrollment, an overall increase in Medi-Cal capitation rates received from DHCS, and modest growth in expenses. The 2020 capital budget includes approximately \$4.8 million for capital investments in information systems and facilities.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Management's Discussion and Analysis
June 30, 2019, 2018, and 2017**

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Health Authority's finances for interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Santa Clara Family Health Plan, Attn: Controller, 6201 San Ignacio Avenue, San Jose, California 95119 or call (408) 376-2000.

FINAL DRAFT

Report of Independent Auditors

To the Governing Board
Santa Clara County Health Authority
(dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority

Report on the Financial Statements

We have audited the accompanying combined financial statements of Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority (collectively, the "Health Authority"), a discrete component unit of the County of Santa Clara, California, which comprise the combined statements of net position as of June 30, 2019 and 2018, 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 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 the Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority as of June 30, 2019 and 2018, and the results in their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 1 through 7, supplementary schedule of proportionate share of the net pension asset/liability, supplementary schedule of pension contributions, supplementary schedules of changes in net other post-employment benefit liability, and supplementary schedule of other post-employment benefit contributions on pages 37 through 40 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. This supplementary information is the responsibility of the Health Authority'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 audits of the combined financial statements. We do not express an opinion or provide an assurance on the supplementary information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Francisco, California
[REDACTED], 2019

Combined Financial Statements

FINAL DRAFT

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Combined Statements of Net Position
June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	\$ 299,117,154	\$ 223,850,859
Premiums receivable	751,066,126	493,307,426
Prepays and other assets	10,161,443	7,024,972
Total current assets	<u>1,060,344,723</u>	<u>724,183,257</u>
Capital assets, net		
Nondepreciable	4,136,236	10,057,379
Depreciable, net of accumulated depreciation and amortization	23,256,004	14,211,990
Total capital assets, net	<u>27,392,240</u>	<u>24,269,369</u>
Assets restricted as to use	305,350	305,350
Net pension asset	1,978,644	-
Total assets	<u>1,090,020,957</u>	<u>748,757,976</u>
Deferred outflows of resources	<u>9,237,609</u>	<u>14,535,250</u>
Total deferred outflows of resources	<u>9,237,609</u>	<u>14,535,250</u>
Total assets and deferred outflows of resources	<u>\$ 1,099,258,566</u>	<u>\$ 763,293,226</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,371,499	\$ 19,836,108
Amounts due to the State of California	53,143,088	24,429,978
In-home supportive services payable	416,092,526	413,549,551
Due to providers	316,682,675	15,954,984
Medical incurred but not reported claims and medical claims payable	82,355,017	78,089,647
Provider incentives and other medical liabilities	5,510,000	14,380,857
Premium deficiency reserves	8,294,025	8,294,025
Total current liabilities	<u>891,448,830</u>	<u>574,535,150</u>
Noncurrent liabilities		
Net pension liability	-	1,824,796
Other post-employment benefits liability	2,539,090	4,708,718
Total liabilities	<u>893,987,920</u>	<u>581,068,664</u>
Deferred inflows of resources	<u>3,145,894</u>	<u>4,208,697</u>
Total deferred inflows of resources	<u>3,145,894</u>	<u>4,208,697</u>
Net position		
Net investment in capital assets	27,392,240	24,269,369
Restricted	305,350	305,350
Unrestricted:		
Designated by Governing Board	2,200,000	-
Unrestricted	172,227,162	153,441,146
Total net position	<u>202,124,752</u>	<u>178,015,865</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,099,258,566</u>	<u>\$ 763,293,226</u>

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Combined Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating revenues		
Capitation and premium revenue	\$ 1,161,897,093	\$ 1,329,112,179
Total operating revenues	<u>1,161,897,093</u>	<u>1,329,112,179</u>
Operating expenses		
Medical expenses	979,948,153	1,162,181,837
Premium tax	105,415,550	101,621,379
General and administrative expenses	54,419,879	45,893,851
Depreciation and amortization	<u>3,816,251</u>	<u>3,548,003</u>
Total operating expenses	<u>1,143,599,833</u>	<u>1,313,245,070</u>
Operating income	18,297,260	15,867,109
Nonoperating revenues		
Interest and other income	<u>5,811,627</u>	<u>3,768,195</u>
Change in net position	24,108,887	19,635,304
Net position, beginning of year	<u>178,015,865</u>	<u>158,380,561</u>
Net position, end of year	<u>\$ 202,124,752</u>	<u>\$ 178,015,865</u>

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Combined Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Capitation and premiums received	\$ 904,138,393	\$ 1,310,670,950
Medical expenses paid	(749,114,557)	(1,368,780,535)
Marketing, general, and administrative expenses paid	(79,153,346)	(72,521,050)
Net cash provided by (used in) operating activities	<u>75,870,490</u>	<u>(130,630,635)</u>
Cash flows from capital and financing activities		
Purchases of capital assets	(6,415,822)	(13,590,598)
Net cash used in capital and financing activities	<u>(6,415,822)</u>	<u>(13,590,598)</u>
Cash flows from investing activities		
Interest collection on investments	5,811,627	3,768,195
Net cash provided by investing activities	<u>5,811,627</u>	<u>3,768,195</u>
Net change in cash and cash equivalents	75,266,295	(140,453,038)
Cash and cash equivalents, beginning of year	223,850,859	364,303,897
Cash and cash equivalents, end of year	<u>\$ 299,117,154</u>	<u>\$ 223,850,859</u>
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	\$ 18,297,260	\$ 15,867,109
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation and amortization	3,816,251	3,548,003
Changes in operating assets and liabilities		
Premiums receivable	(257,758,700)	(18,441,229)
Net pension asset	(1,978,644)	-
Prepays and other assets	(3,136,471)	45,647
Accounts payable and accrued liabilities	(10,987,909)	(20,501,900)
Amounts due to the State of California	28,713,110	(217,094,347)
In-home supportive services payable	2,542,975	113,329,285
Due to providers	300,727,691	(2,764,473)
Net pension liability	1,431,379	(4,167,907)
Net other post-employment benefits liability	(1,190,965)	(2,498,677)
Medical incurred but not reported claims and medical claims payable	4,265,370	1,552,216
Provider incentives and other medical liabilities	(8,870,857)	495,638
Net cash provided by (used in) operating activities	<u>\$ 75,870,490</u>	<u>\$ (130,630,635)</u>
Supplemental cash flow disclosure		
Cash paid during the year for premium tax	<u>\$ 105,415,548</u>	<u>\$ 140,124,201</u>
Supplemental disclosure of noncash item		
Payables for capital asset purchases	<u>\$ 525,583</u>	<u>\$ 3,774,578</u>

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority Notes to Combined Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and organization – The accompanying combined financial statements include the Santa Clara County Health Authority and the Santa Clara Community Health Authority Joint Powers Authority (“JPA”) (collectively, the “Health Authority”). The combined financial statements are included in the County of Santa Clara’s basic financial statements as a discretely presented component unit.

The Santa Clara County Health Authority (dba Santa Clara Family Health Plan (“SCFHP”)) was established on August 1, 1995, by the Santa Clara County Board of Supervisors pursuant to Section 14087.38 of the State of California Welfare and Institutions Code (the “Code”). SCFHP was created for the purpose of developing the Local Initiative Plan (the “Plan”) for the expansion of Medi-Cal Managed Care, as presently regulated by the California Department of Managed Health Care (“DMHC”). The Medi-Cal Managed Care Program offers no-cost health coverage to children, birth through age 18, pregnant women, and other low-income adults in Santa Clara County (the “County”). During 1996, SCFHP obtained licensure under the Knox-Keene Health Care Service Plan Act of 1975 and commenced operations.

The JPA is 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 the Code Section 14087.54. The JPA received its Knox-Keene license on May 11, 2006, and commenced operations on June 1, 2006. The Health Authority has advised the DMHC of its intent to surrender the JPA’s license as of December 31, 2019.

The Health Authority has contracted with the California Department of Health Care Services (“DHCS”) to receive funding to provide health care services to the Medi-Cal eligible County residents who are enrolled as members of the Health Authority (“DHCS contract”). The DHCS contract specifies capitation rates, which may be adjusted annually. DHCS revenue is paid monthly and is based upon contracted rates, and actual Medi-Cal enrollment. The Health Authority, 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 Health Authority contracts with the Centers for Medicare & Medicaid Services (“CMS”) and the DHCS, effective January 1, 2015, to participate in Cal MediConnect (“CMC”), a demonstration project to integrate care for dual-eligible beneficiaries. Cal MediConnect is part of California’s larger demonstration plan known as the Coordinated Care Initiative (“CCI”), which transforms the delivery of health care for seniors and people with disabilities. It integrates dual eligibles’ care across all their entitlement benefits from Medicare, Medi-Cal, and other supportive services.

The Health Authority operates a Healthy Kids program to provide medical coverage to children of parents not otherwise eligible for the Medi-Cal program. This program has been assigned to the JPA. Healthy Kids members will transition to other programs, largely Medi-Cal, by December 31, 2019, or sooner.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority

Notes to Combined Financial Statements

On March 1, 2016, SB X2-2 established a Managed Care Organization (“MCO”) provider tax for July 1, 2016, through June 30, 2019, and administered by DHCS. The tax is assessed on by DHCS on licensed health plans contracted to provide Medi-Cal services. The legislation established taxing tiers and per-enrollee amounts for the fiscal years ended June 30, 2017, 2018, and 2019. The Health Authority paid \$105,415,548 and \$140,124,201 in MCO premium taxes during fiscal years 2019 and 2018, respectively. At June 30, 2019 and 2018, the Health Authority had payables due in the amount of \$26,353,889 and \$0, respectively, included in Amounts due to the State of California.

Basis of accounting – The Health Authority is a governmental health insuring organization and, accordingly, follows principles, as prescribed by the Governmental Accounting Standards Board (“GASB”), the provisions of the American Institute of Certified Public Accountants Audit and Accounting Guide (“AICPA”), *Health Care Organizations*, 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. The Health Authority utilizes the proprietary fund method of accounting under which the combined financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Health Authority’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.

Basis of combination – The accompanying financial statements include the Santa Clara County Health Authority and the Santa Clara Community Health Authority, as both entities are under common management and control.

Use of estimates – The preparation of the 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Medical incurred but not reported claims and medical claims payable, premiums receivable, net pension asset/liability, other post-employment benefits liability, premium deficiency reserves, and useful lives of capital assets represent significant estimates. Actual results could differ from those estimates.

Cash and cash equivalents – The Health Authority considers all highly liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value. At June 30, 2019 and 2018, the Health Authority’s cash deposits had carrying amounts of \$299,117,154 and \$223,850,859, respectively. The Health Authority’s bank balances at June 30, 2019 and 2018, including interests in an investment pool, were \$306,584,080 and \$245,879,254, respectively. Of the bank and investment pool balances at June 30, 2019 and 2018, \$305,834,080 and \$245,129,254, respectively, were not covered by federal depository insurance.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority Notes to Combined Financial Statements

Amounts invested in the County Treasurer's investment pool (the "Investment Pool") are considered as cash and cash equivalents, as funds can be withdrawn by the Health Authority on demand. The County's Investment Oversight Committee Board has oversight responsibility for the Investment Pool. The Investment Pool is not U.S. Securities and Exchange Commission registered, and based on the California statutes and the County's investment policy, primarily invests in obligations of U.S. Treasury, certain federal agencies, bankers' acceptances, commercial papers, certificates of deposit, repurchase agreements, and California State Treasurer's Local Agency Investment Fund. The amounts invested in the Investment Pool are considered investments in an external investment pool and earn interest based on the blended rate of return earned by the entire portfolio in the pool. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in forced liquidation. The fair value of the Investment Pool is generally based on published market prices and quotations from major investment firms. As the Health Authority does not own identifiable investment securities of the pool but participates as a shareholder of the pool, these cash and cash equivalents are not individually identifiable and were not required to be categorized under GASB Codification Section C20, *Cash Deposits with Financial Institutions*, Section 150, *Investments* and Section 155, *Investments – Reverse Repurchase Agreements*. The fair value of the Health Authority's share in the pool approximated the fair value of the position in the pool at June 30, 2019 and 2018.

Capital assets – Purchased capital assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, generally three to five years. Leasehold improvements are amortized over the shorter of the remaining term of the lease or the useful life. The Health Authority capitalizes capital expenditures over \$1,000, which will have a useful life of three or more years.

The Health Authority 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.

Assets restricted as to use – The Health Authority is required by DMHC to restrict cash having a fair value of at least \$300,000 for payment of member claims in the event of insolvency. The amount recorded was \$305,350 at June 30, 2019 and 2018, respectively.

Amounts due to the State of California – When the Health Authority is made aware of changes to DHCS rate structure, such as rate changes, risk corridors or program reconciliations, that significantly impact the financial outlook, an accrual for the estimated change is recorded.

In-Home Supportive Services ("IHSS") payable – DHCS paid IHSS payments directly to the Santa Clara County's Department of Social Services. As part of CCI, the Health Authority assumed full risk for IHSS provider payments. These amounts are included in both premium revenue and medical expenses and equivalent amounts are recorded as premiums receivable and IHSS payable, respectively, in the Health Authority's combined financial statements. Additionally, the Health Authority paid the MCO tax on the IHSS revenue and recorded it as premium tax. Effective January 1, 2018, IHSS was phased-out of CCI.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority

Notes to Combined Financial Statements

Due to providers – Due to providers consists predominately of payables related to managed care hospital directed payments, Proposition 56 funds, and Ground Emergency Medical Transportation funds.

Effective July 1, 2017, DHCS implement three Medi-Cal managed care hospital 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”).

- For PHDP, the Department has directed Managed Care Plans (“MCP”) to reimburse private hospitals as defined in WIC 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 care.
- For EPP, which consists of fee-for-service and capitated pools, the Department has directed MCPs to reimburse California’s designated public hospitals (“DPH”) for contracted services based on actual utilization of contracted services.
- For QIP, the Department has directed MCPs to make additional payments tied to performance on designated performance metrics in four strategic categories: primary care, specialty care, inpatient care, and resource utilization.

Proposition 56 is a supplemental payment for certain professional medical services to Medi-Cal beneficiaries funded by the Tobacco Tax (California Healthcare, Research and Prevention Tobacco Tax Act (Proposition 56) as defined by DHCS in APL 19-006.

Ground Emergency Medical Transportation (“GEMT”) is a supplemental payment that provides additional funding to eligible providers of GEMT services to Medi-Cal beneficiaries as defined by DHCS in APL 19-007.

Medical incurred but not reported claims and medical claims payable – The Health Authority contracts with various providers, including physicians and hospitals, to provide certain health care products and services to enrolled beneficiaries. The cost of the health care products and services provided or contracted for is accrued in the period in which it is provided to a member, based in part on actuarial estimates, including an accrual for medical services incurred but not yet reported to the Health Authority. 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.

Provider incentives and other medical liabilities – The Health Authority has various incentive agreements with certain providers whereby the providers are reimbursed for efficient and quality services provided to certain enrolled beneficiaries. Under the agreements, health care costs (which include all fee-for-service claims and estimated medical incurred but not reported claims and medical claims payable) are allocated on a per member per month basis. Based on the terms of certain incentive agreements, a final reconciliation of surpluses are completed annually and paid within six months of the end of the Health Authority’s fiscal year. Incentive payments are recorded as medical expenses in the accompanying combined financial statements.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

Net pension asset/liability – The Health Authority recognizes a net pension asset/liability, which represents the proportionate share of the difference of the total pension asset/liability over the fiduciary net position of the pension reflected in the actuarial report provided by the California Public Employees' Retirement System ("CalPERS"). The net pension asset/liability is measured as of the Health Authority's prior fiscal year-end. Changes in the net pension asset/liability are recorded in the period incurred as pension expense and as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension asset/liability that are recorded as deferred inflows of resources or deferred outflows of resources are recognized in pension expense systematically over time.

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

Other post-employment benefit liability – The Health Authority recognizes a net other post-employment benefit ("OPEB") liability, which represents the excess of the total OPEB liability over the fiduciary net position of the Health Authority's OPEB plan, which is administered by CalPERS. The net OPEB liability is measured as of the Health Authority's prior fiscal year-end. Changes in the net OPEB liability are recorded in the period incurred as OPEB expense and as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources are recognized in OPEB expense systematically over time.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position, and additions to and deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Net position – Net position is classified as net investment in capital assets, restricted net position, board-designated funds, or unrestricted net position. Net investment in capital assets represents capital assets, net of accumulated depreciation and amortization. Restricted net position is noncapital net position that must be used for a particular purpose, as specified by the state regulatory agency, grantors, or contributors external to the Health Authority. In December 2018, the Health Authority's Governing Board designated \$2,200,000 for board-designated investments, the specific composition and recipients of which will be determined at a later date. Unrestricted net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority

Notes to Combined Financial Statements

Premium revenue – The Health Authority has agreements with the Medi-Cal Program in the state to provide certain health care products and services to enrolled Medi-Cal beneficiaries. Eligibility of beneficiaries is determined by Santa Clara County Social Services Agency and validated by the State of California. The State of California provides the Health Authority the validated monthly eligibility file of program beneficiaries who are continuing, newly added, or terminated from the program in support of capitation revenue for the respective month. The Health Authority receives monthly premium payments from DHCS based on the number of enrolled Medi-Cal beneficiaries, regardless of services actually performed. Premiums are due from DHCS monthly and are recognized as revenue during the period in which the Health Authority is obligated to provide services to members. A portion of revenues received from DHCS is subject to possible retroactive adjustments. Provisions have been made for estimated retroactive adjustments. For the years ended June 30, 2019 and 2018, premium revenues recorded from DHCS under the Medi-Cal Program totaled \$998,083,852 and \$1,177,273,921, respectively.

The Health Authority entered into a three-way contract with CMS and the DHCS effective January 1, 2015, to participate in the CMC program. For the years ended June 30, 2019 and 2018, premium revenues totaled \$30,482,500 and \$36,143,056, and \$129,063,173 and \$112,123,902 for the Medi-Cal and Medicare components of the CMC program, respectively. According to Chapter 33, Statutes of 2013 (SB 78, Committee on Budget and Fiscal Review), premium tax is imposed on only the revenues received by MCOs through their Medi-Cal and Healthy Kids managed care plans; consequently, Medicare revenues are not subject to premium tax.

The Health Authority has an agreement with the County of Santa Clara to provide health care services to enrolled Healthy Kids beneficiaries. The Health Authority issues monthly invoices to the funding organization for its respective portion of premium costs for all Healthy Kids enrollees. Premiums are due monthly and are recognized as revenue in the period the Health Authority is obligated to provide medical services. A nominal monthly premium is invoiced directly to the family of the Healthy Kids enrolled child and recognized as revenue in the service month. Annual premium revenue for the Healthy Kids Program totaled \$4,267,568 and \$3,571,300 for the years ended June 2019 and 2018, respectively, and were funded by County of Santa Clara. Healthy Kids members will transition to other programs, largely Medi-Cal, by December 31, 2019, or sooner.

Premium deficiency reserves – The Health Authority 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. The Health Authority entered into a three-way contract with CMS and the DHCS effective January 1, 2015, to participate in a demonstration project to integrate care for dual-eligible beneficiaries. The Contract shall be renewed in one-year terms through December 31, 2022. The Health Authority has the option to cancel this agreement prior to the end of each term. Management has estimated that it may incur losses on the contract. Accordingly, a premium deficiency reserve in the amount of \$8,294,025 has been recorded at June 30, 2019 and 2018. The Health Authority may receive future revenue adjustments in the form of shared risk corridor payments and CMS hierarchical condition category risk adjustment true-ups; however, these adjustments cannot currently be estimated. Management has determined that no other premium deficiency reserves are needed at June 30, 2019 and 2018.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority Notes to Combined Financial Statements

Concentration of credit risk – A majority of the Health Authority's revenues are derived from contracts with DHCS and CMS. Loss of the contracts due to nonrenewal or legislative decisions that impact program funding or result in discontinuation could materially affect the financial position of the Health Authority. As of June 30, 2019, the Health Authority had premiums receivable of \$734,627,346, \$7,941,454, \$7,812,105, and \$685,221 due from Medi-Cal Program, CMC program, Medicare, and Healthy Kids Program, respectively. As of June 30, 2018, the Health Authority had premiums receivable of \$483,612,087, \$3,425,599, \$5,579,432, and \$690,308 due from Medi-Cal Program, CMC program, Medicare and Healthy Kids Program, respectively.

Medical expenses – Hospital, physician, and other service costs are based on actual paid claims plus an estimate for accrued incurred but not reported claims. Claims are paid primarily on a fee-for-service basis. Many physicians belonging to medical groups and certain hospitals are compensated primarily on a capitation basis with provisions for additional incentive payments in certain circumstances.

Operating revenues and expenses – The Health Authority's primary operating revenue is derived from capitation. As defined by GASB Codification Section P80, *Proprietary Fund Accounting and Financial Reporting*, all operating revenues are considered program revenues since they are charges for services provided and program-specific operating grants. The primary operating expense is medical care cost. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or net investment income and changes in the fair value of investments.

Income taxes – The Health Authority is a public entity and falls under the purview of Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal income or state franchise taxes.

New accounting pronouncements – In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* ("GASB 84"), which is effective for financial statements for period beginning after December 15, 2018. GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. The Health Authority is reviewing the impact of the adoption of GASB 84 for the fiscal year ending 2020.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB 87"), which is effective for financial statements for periods beginning after December 15, 2019. 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. The Health Authority is reviewing the impact of the adoption of GASB 87 for the fiscal year ending 2021.

Reclassifications – Certain amounts in the 2018 combined financial statements have been reclassified to conform to the 2019 presentation. These reclassifications have no effect on the 2018 operating income or net position.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2019 and 2018, are as follows:

	2019				Ending Balance
	Beginning Balance	Additions	Reductions/ Adjustments	Transfers	
Land	3,507,578	\$ -	\$ -	\$ -	\$ 3,507,578
Furniture and equipment	10,839,469	1,146,309	(2,285)	-	11,983,493
Leasehold improvements	759,482	-	(759,482)	-	-
Building and building improvements	6,235,856	1,165,733	-	9,865,980	17,267,569
Software	10,657,629	97,000	-	587,526	11,342,155
Vehicles	29,248	-	-	-	29,248
Software work in progress	347,526	301,887	-	(587,526)	61,887
Building improvements work in progress	6,202,275	4,230,476	-	(9,865,980)	566,771
Total capital assets	38,579,063	6,941,405	(761,767)	-	44,758,701
Less accumulated depreciation and amortization for:					
Furniture and equipment	9,397,651	841,746	(592,059)	-	9,647,338
Leasehold improvements	746,602	12,879	(167,425)	-	592,056
Building and building improvements	159,894	595,109	-	-	755,003
Software	4,003,516	2,361,642	-	-	6,365,158
Vehicles	2,031	4,875	-	-	6,906
Total accumulated depreciation and amortization	14,309,694	3,816,251	(759,484)	-	17,366,461
Capital assets, net	\$ 24,269,369	\$ 3,125,154	\$ (2,283)	\$ -	\$ 27,392,240
	2018				Ending Balance
	Beginning Balance	Additions	Reductions/ Adjustments	Transfers	
Land	\$ -	\$ 3,507,578	\$ -	\$ -	\$ 3,507,578
Furniture and equipment	10,290,008	754,131	(204,670)	-	10,839,469
Leasehold improvements	759,482	-	-	-	759,482
Building and building improvements	-	6,235,856	-	-	6,235,856
Software	3,816,470	438,300	-	6,402,859	10,657,629
Vehicles	-	29,248	-	-	29,248
Software work in progress	6,402,859	347,526	-	(6,402,859)	347,526
Building improvements work in progress	-	6,052,537	149,738	-	6,202,275
Total capital assets	21,268,819	17,365,176	(54,932)	-	38,579,063
Less accumulated depreciation and amortization for:					
Furniture and equipment	8,261,463	1,136,188	-	-	9,397,651
Leasehold improvements	592,058	154,544	-	-	746,602
Building and building improvements	-	159,894	-	-	159,894
Software	1,908,170	2,095,346	-	-	4,003,516
Vehicles	-	2,031	-	-	2,031
Total accumulated depreciation and amortization	10,761,691	3,548,003	-	-	14,309,694
Capital assets, net	\$ 10,507,128	\$ 13,817,173	\$ (54,932)	\$ -	\$ 24,269,369

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

Depreciation and amortization expense totaled \$3,816,251 and \$3,548,003, at June 30, 2019 and 2018, respectively.

NOTE 3 – MEDICAL INCURRED BUT NOT REPORTED CLAIMS AND MEDICAL CLAIMS PAYABLE

The Health Authority estimates medical incurred but not reported (“IBNR”) claims and medical 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 operations. Such estimates are subject to impact of changes in the regulatory environment. Activity for medical IBNR and medical claims payable for the years ended June 30, 2019 and 2018, is summarized as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 78,089,647	\$ 76,537,431
Incurred related to:		
Current year	584,499,785	547,935,606
Prior year	(12,368,761)	(9,848,544)
Total incurred	<u>572,131,024</u>	<u>538,087,062</u>
Paid related to:		
Current year	503,819,454	471,250,062
Prior year	64,046,200	65,284,784
Total paid	<u>567,865,654</u>	<u>536,534,846</u>
Ending balance	<u>\$ 82,355,017</u>	<u>\$ 78,089,647</u>

As presented in the table above, \$572,131,024 and \$538,087,062 in medical claims were incurred at June 30, 2019 and 2018, respectively, which are reflected in medical services in the combined statements of revenues, expenses, and changes in net position.

As a result of changes between actual payments for medical services and estimated amounts in previous years, claims expenses decreased in 2019 and 2018 by \$14,043,447 and \$11,252,647, respectively.

NOTE 4 – DESIGNATED NET POSITION

Designated funds remain under the control of the Governing Board, which may, at its discretion, later use the funds for other purposes. For the fiscal years ended June 30, 2019 and 2018, board-designated funds of \$2,200,000 and \$0, respectively, were made.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

NOTE 5 – OPERATING LEASE OBLIGATIONS

The Health Authority leased facilities under an operating lease that expired in August 2018. The Health Authority also has various equipment operating leases expiring in various years through September 2023.

Future minimum lease payments as of June 30, 2019, consist of the following:

<u>Years Ending June 30,</u>	
2020	\$ 118,404
2021	118,404
2022	50,257
2023	50,257
2024	<u>12,564</u>
Total minimum lease payments	<u>\$ 349,886</u>

Rent expense, included in general and administrative expenses in the combined statements of revenues, expenses, and changes in net position, for the years ended June 30, 2019 and 2018, was \$171,779 and \$1,407,585, respectively.

NOTE 6 – EMPLOYEE BENEFIT PLANS

Internal Revenue Code 401(a) Plan – The Health Authority has a defined contribution plan under Section 401(a) of the Internal Revenue Code. For employees hired prior to January 1, 2013, participants must contribute 6% of their gross compensation and the Health Authority must contribute 3% of the participant's gross compensation. For employees hired on or after January 1, 2013, participants must contribute 6.25% of their gross compensation within a specific range and the Health Authority must contribute 6.533% of the participant's gross compensation with the same specific range. For senior staff employees, the Health Authority contributes greater than 3% of gross compensation and senior staff employees contribute less than 6% of their gross compensation. Contributions by the Health Authority totaled \$716,716 and \$535,167 for the years ended June 30, 2019 and 2018, respectively.

The 401(a) plan is administered through a third-party administrator and is available to all employee groups. The Health Authority does not perform the investment function and has no fiduciary accountability for the plan. Thus, plan assets and any related liability to plan participants have been excluded from the Health Authority's combined financial statements.

Internal Revenue Code 457 Plan – The Health Authority has a deferred compensation plan under Section 457 of the Internal Revenue Code. Participants may contribute up to the maximum allowed under Section 457. The Health Authority makes matching contributions only to 457 plan participants who are not participating in the 401(a) plan. For those employees, the Health Authority matches 50% of employee contributions, up to a maximum of 3% of compensation. Matching contributions are made to the 401(a) plan.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority Notes to Combined Financial Statements

The 457 plan is administered through a third-party administrator and is available to all employee groups. The Health Authority does not perform the investment function and has no fiduciary accountability for the plan. Thus, plan assets and any related liability to plan participants have been excluded from the Health Authority's combined financial statements.

California Public Employees' Retirement System

Plan description – The Health Authority participates in CalPERS, a cost sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. CalPERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. CalPERS provides retirement benefits payable beginning at age 55 that are equal to 2% of the employee's final 3-year average compensation multiplied by the employee's years of service.

The State passed the California Employees' Pension Reform Act of 2013 ("PEPRA") which became effective on January 1, 2013. PEPRA changes include the classification of active employees into two distinct classifications: classic members and new members. Classic members represent active members hired before January 1, 2013, and retain the pension plan benefits in effect. This plan was closed to entrants on January 1, 2013, or after. New members are active members hired on or after January 1, 2013, and are subject to PEPRA. PEPRA offers a reduced benefit formula and increased retirement ages to new public employees, who first became PERS members on or after January 1, 2013. CalPERS provides retirement benefits payable beginning at age 62 that are equal to 2% of the employee's final 3-year average compensation times the employee's years of service. The provisions and all other requirements are established by State statute. CalPERS issues a stand-alone report that is available upon request at the following address: CalPERS Actuarial & Employer Service Division; P.O. Box 942709; Sacramento, California 94229-2709.

Funding policy – The contribution requirements of the plan members and the Health Authority are established and may be amended by CalPERS. With the election to participate in CalPERS, participation in Social Security is discontinued, and contributions to CalPERS are in lieu of contributions to Social Security. The Health Authority is required to contribute an actuarially determined rate. The employer contribution rate was 8.00% of annual covered payroll for both the years ended June 30, 2019 and 2018. All eligible participating employees are required to contribute 7.00% of their monthly salaries to CalPERS. The Health Authority deducts the contributions from employees' wages and remits to CalPERS on their behalf and for their account. Contributions to the pension plans from the Health Authority were \$1,669,920 and \$4,426,715 for the years ended June 30, 2019 and 2018, respectively.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority

Notes to Combined Financial Statements

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension – The net pension liability at June 30, 2019, is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. The total pension liabilities in the June 30, 2017 actuarial valuation was based on the following actuarial methods and assumptions:

Actuarial cost method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Mortality rate table	Derived using CalPERS' Membership Data for all Funds
Postretirement benefit increase:	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

The net pension liability at June 30, 2018, is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The total pension liabilities in the June 30, 2016 actuarial valuation was based on the following actuarial methods and assumptions:

Actuarial cost method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Mortality rate table	Derived using CalPERS' Membership Data for all Funds
Postretirement benefit increase:	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The experience study report can be obtained at the CalPERS' website under Forms and Publications.

Change of assumptions – The inflation rate decreased from 2.75% to 2.5% for the June 30, 2018 measurement date. The discount rate decreased from 7.65% to 7.15% for the June 30, 2017 measurement date.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

Discount rate – The discount rate used to measure the total pension liability at June 30, 2019 and 2018, measurement date was 7.15%. 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. The test revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is 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” that 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 (11-60 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 the 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 1-10 ^(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.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

Sensitivity of the employer's proportionate share of the net pension asset/liability to changes in the discount rate – The following presents the Health Authority's net pension asset/liability as of June 30, 2019 and 2018, as well as what the net pension asset/liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	June 30, 2019		
	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Health Authority's net pension (asset) liability	\$ 3,796,634	\$ (1,978,644)	\$ (6,746,042)

	June 30, 2018		
	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Health Authority's net pension liability (asset)	\$ 7,138,936	\$ 1,824,796	\$ (2,576,471)

The Health Authority's proportion for the miscellaneous plan was -0.0205% and 0.0184% at June 30, 2019 and 2018, respectively.

For the years ended June 30, 2019 and 2018, the Health Authority recognized pension expense of \$1,122,685 and \$1,546,128, respectively. Pension expense represents the change in the net pension asset/liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

As of June 30, 2019, the Health Authority had \$6,533,870 of deferred outflows of resources and \$2,994,548 of deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in employers' proportionate share	\$ 29,685	\$ (2,671,652)
Difference in experience	25,833	(75,914)
Differences between employer's actual contributions and its proportionate share of total employer contributions	4,753,151	(11,637)
Net differences between projected and actual earnings on pension plan investments	-	(9,782)
Changes in assumptions	55,281	(225,563)
Pension contributions made subsequent to measurement date	1,669,920	-
	<u>\$ 6,533,870</u>	<u>\$ (2,994,548)</u>

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

As of June 30, 2018, the Health Authority had \$10,830,147 of deferred outflows of resources and \$4,034,620 of deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in employers' proportionate share	\$ 138,370	\$ (3,697,278)
Difference in experience	12,993	(186,153)
Differences between employer's actual contributions and its proportionate share of total employer contributions	4,275,305	(28,260)
Net differences between projected and actual earnings on pension plan investments	364,604	-
Changes in assumptions	1,612,160	(122,929)
Pension contributions made subsequent to measurement date	4,426,715	-
	\$ 10,830,147	\$ (4,034,620)

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic manner.

Deferred outflows of resources of \$1,669,920 and \$4,426,715 resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset/liability in the years ending June 30, 2019 and 2018, respectively.

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

Year Ended June 30,	
2020	\$ 640,121
2021	\$ 663,003
2022	\$ 548,482
2023	\$ 17,796

NOTE 7 – POST-EMPLOYMENT HEALTH BENEFITS

Plan description – The Health Authority participates in the California Employers' Retiree Benefit Trust ("CERBT"), a single employer agent plan as administered by CalPERS to prefund its post-employment healthcare benefits. The Health Authority's OPEB plan provides healthcare benefits to eligible employees and certain dependents. Retired employees who retire directly from the health plan are eligible to receive contributions from the Health Authority toward their monthly Public Employees' Medical and Hospital Care Act (health plans offered by CalPERS) if they meet certain age and service eligibility requirements as outlined in the plan document and as approved by the Health Authority's Governing Board.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority

Notes to Combined Financial Statements

Employees hired prior to May 1, 2018, who attain age 50, with a minimum of 5 years of CalPERS service, and are employed by the Health Authority at the time of retirement, are eligible for coverage. Employees hired on or after May 1, 2018, who attain age 50, with a minimum of 12 continuous years at the Health Authority, and are employed by the Health Authority at the time of retirement, are eligible for coverage.

Copies of CERBT's annual financial report may be obtained from the executive office at 400 Q Street, Sacramento, California 95811. A separate report for the Health Authority's participation in the CERBT trust is not available.

Funding policy – For employees hired prior to May 1, 2018, the Health Authority pays for 90% of the cost of retiree medical plan premiums, including the cost for spouse and dependent coverage. Retirees are required to pay the other 10% of the cost of coverage. The Health Authority's contribution is capped at 90% of the monthly premium cost of the second most expensive HMO plan available from CalPERS (basic and supplemental rates for non-Medicare and Medicare retirees, respectively) for retirees who elect PERS Care or out-of-state coverage. Upon the death of the retiree, the Health Authority will continue contributions described above for the surviving spouse or until surviving minor dependents reach age 26.

For retirees hired on or after May 1, 2018, the Health Authority pays for 90% of the cost of retiree-only medical plan premiums. Retirees are required to pay the other 10% of the cost of coverage. The Health Authority's contribution is capped at 90% of the employee-only premium cost of the second most expensive HMO plan available from CalPERS (basic and supplemental rates for non-Medicare and retirees, respectively) for retirees who elect PERS Care or out-of-state coverage.

Employees covered – At June 30, 2019 and 2018, the following employees were covered by the plan:

	<u>2019</u>	<u>2018</u>
Active	232	216
Retirees	<u>55</u>	<u>55</u>
Total participants	<u>287</u>	<u>271</u>

Contributions – The Health Authority must contribute the minimum required amount of \$5,000 or the actuarially determined contribution, whichever is lower. The contribution requirements of the Health Authority are established and may be amended by the CERBT.

Net OPEB liability – The Health Authority's net OPEB liability at June 30, 2019 and 2018, was measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and 2017, respectively.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Actuarial cost method:	Individual Entry Age Normal Level Percent of Pay
Actuarial assumptions:	
Discount rate	6.75%
Inflation	2.75%
Investment rate of return	6.75%
Healthcare cost trend rates:	7.50% for 2019 – Non-Medicare, decreasing to 4.00% in 2076, 6.5% for 2019 – Medicare, decreasing to 4% in 2076

Mortality rates are based on statistics taken from the CalPERS 1997-2015 Experience Study Report. Mortality projected fully generational with Scale MP-17.

The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Actuarial cost method:	Individual Entry Age Normal Level Percent of Pay
Actuarial assumptions:	
Discount rate	6.75%
Inflation	2.75%
Investment rate of return	6.75%
Healthcare cost trend rates:	7.50% for 2019, decreasing to 4.00% for year 2017 for ages pre-65 and 6.5% for 2019, decreasing to 4.00% in 2075 for ages post-65

Mortality rates are based on statistics taken from the CalPERS Experience Study Report adopted in 2014. The rates include a projection to 2028 using Scale BB to account for anticipated future mortality improvement.

Discount rate – The discount rate used to measure the total OPEB liability was 6.75% at both June 30, 2018 and 2017 measurement dates. The projection of cash flows used to determine the discount rate assumed that Health Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

The Health Authority's retiree health plan assets are invested in the California Employers' Retirement Benefit Trust Fund Strategy 1 ("Strategy"). The table below reflects the Strategy's asset allocation.

<u>Asset Class</u>	<u>Expected Real Rate of Return</u>	<u>Asset Allocation</u>
Global equity	4.82%	57.00%
Fixed Income	1.47%	27.00%
Treasury inflation-protected securities	1.29%	5.00%
Commodities	0.84%	3.00%
Real estate investment trusts	3.76%	8.00%
Assumed long-term rate of inflation		2.75%
Expected long-term net rate of return		6.75%

Changes in the net OPEB liability – The changes in the net OPEB liability for the years ended June 30, 2019 and 2018, were as follows:

	<u>June 30, 2019</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at June 30, 2018	\$ 11,046,155	\$ 6,337,437	\$ 4,708,718
Changes during the year:			
Service cost	1,119,648	-	1,119,648
Interest on the total OPEB liability	805,036	-	805,036
Contributions from employer	-	3,588,109	(3,588,109)
Net investment income	-	518,470	(518,470)
Benefit payments	(478,669)	(478,669)	-
Administrative expense	-	(12,267)	12,267
Net change in total OPEB liability	<u>1,446,015</u>	<u>3,615,643</u>	<u>(2,169,628)</u>
Balance at June 30, 2019	<u>\$ 12,492,170</u>	<u>\$ 9,953,080</u>	<u>\$ 2,539,090</u>

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

	June 30, 2018		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 10,006,805	\$ 5,188,446	\$ 4,818,359
Changes during the year:			
Service cost	756,248	-	756,248
Interest on the total OPEB liability	708,213	-	708,213
Actual vs. expected experience	(14,700)	-	(14,700)
Assumption changes	131,618	-	131,618
Contributions from employer	-	1,142,027	(1,142,027)
Net investment income	-	551,777	(551,777)
Benefit payments	(542,029)	(542,029)	-
Administrative expense	-	(2,784)	2,784
	<u>1,039,350</u>	<u>1,148,991</u>	<u>(109,641)</u>
Net change in total OPEB liability			
Balance at June 30, 2018	<u>\$ 11,046,155</u>	<u>\$ 6,337,437</u>	<u>\$ 4,708,718</u>

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the net OPEB liability of the Health Authority as of June 30, 2019 and 2018, as well as what the Health Authority's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	June 30, 2019		
	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Health Authority's net OPEB liability	\$ 4,299,307	\$ 2,539,090	\$ 1,090,984
	June 30, 2018		
	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Health Authority's net OPEB liability	\$ 6,249,142	\$ 4,708,718	\$ 3,440,656

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of the Health Authority, as well as what the Health Authority’s net OPEB liability would be if it were calculated using healthcare cost trend rates that is 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	June 30, 2019		
	1% Decrease in Healthcare Costs Trend Rate	Current Healthcare Costs Trend Rate	1% Increase in Healthcare Costs Trend Rate
Health Authority's net OPEB liability	\$ 832,325	\$ 2,539,090	\$ 4,574,514

	June 30, 2018		
	1% Decrease in Healthcare Costs Trend Rate	Current Healthcare Costs Trend Rate	1% Increase in Healthcare Costs Trend Rate
Health Authority's net OPEB liability	\$ 3,318,333	\$ 4,708,718	\$ 6,353,250

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the year ended June 2019, the Health Authority recognized OPEB expense of \$1,410,374. At June 30, 2019, the Health Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred outflows of resources	Deferred inflows of resources
Difference in experience	\$ -	\$ (11,434)
Net differences between projected and actual earnings on pension plan investments	-	(139,912)
Changes in assumptions	102,370	-
OPEB contributions made subsequent to measurement date	2,601,369	-
	<u>\$ 2,703,739</u>	<u>\$ (151,346)</u>

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Notes to Combined Financial Statements**

As of June 2018, the Health Authority recognized OPEB expense of \$1,089,469. At June 30, 2018, the Health Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred outflows of resources	Deferred inflows of resources
Difference in experience	\$ -	\$ (13,067)
Net differences between projected and actual earnings on pension plan investments	-	(161,010)
Changes in assumptions	116,994	-
OPEB contributions made subsequent to measurement date	3,588,109	-
	\$ 3,705,103	\$ (174,077)

The Health Authority reported \$2,601,369 and \$3,588,109 as deferred outflows of resources related to contributions made subsequent to the measurement date for the years ended June 30, 2019 and 2018. This amount will be recognized as a reduction of net OPEB liability in the years ended June 30, 2020 and 2019, respectively.

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

Year Ended June 30,

2020	\$	(32,050)
2021	\$	(32,050)
2022	\$	(32,052)
2023	\$	8,204
2024	\$	12,991
Thereafter	\$	25,981

Payable to the OPEB plan – At June 30, 2019 and 2018, the Health Authority had no outstanding amount of contributions to the OPEB plan required for the years ended June 30, 2019 and 2018.

NOTE 8 – MEDICAL STOP LOSS INSURANCE

The Health Authority has entered into certain 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 Health Authority certain proportions of the cost of each member's annual hospital services excluding those that are capitated, in excess of specified deductibles, up to a maximum of \$1,500,000 per member per contract year. Insurance premiums are recorded as medical expenses and recoveries are recorded as a reduction of these expenses. Premiums exceed stop-loss recoveries by \$2,479,214 in 2019. Stop-loss recoveries exceeded premiums by \$819,793 in 2018.

Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority

Notes to Combined Financial Statements

NOTE 9 – TANGIBLE NET EQUITY

As a limited license plan under the Knox-Keene Health Care Services Plan Act of 1975, the Health Authority is required to maintain a minimum level of tangible net equity. The required tangible net equity level was \$30,888,357 and \$36,037,000 at June 30, 2019 and 2018, respectively. The Health Authority's tangible net equity was \$202,124,752 and \$178,015,865 at June 30, 2019 and 2018, respectively.

NOTE 10 – RISK MANAGEMENT

The Health Authority 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 Health Authority carries commercial insurance for claims arising from such matters, and no settled claims have ever exceeded the Health Authority's commercial coverage.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Health Authority is a party to claims and legal actions by enrollees, providers, and others. The Health Authority's policy is to accrue for amounts related to these claims and legal actions if it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. After consulting with legal counsel, Health Authority management is of the opinion that any liability that may ultimately result from claims or legal actions will not have a material effect on the combined financial position or combined results of operations of the Health Authority.

NOTE 12 – 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 Health Authority. The future of the PPACA and the impact of future changes in Medicaid to the Health Authority is uncertain at this time.

Supplementary Information

FINAL DRAFT

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Schedule of Proportionate Share of the Net Pension Asset/Liability**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement period	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Proportion of the net pension (asset) liability	-0.02053%	0.01840%	0.07925%	0.07311%	0.07849%
Proportionate share of the net pension (asset) liability	\$ (1,978,644)	\$ 1,824,796	\$ 6,857,370	\$ 5,018,386	\$ 4,883,971
Covered-employee payroll*	\$ 19,966,458	\$ 16,512,291	\$ 11,010,647	\$ 7,427,745	\$ 9,121,825
Proportionate share of the net pension liability as a percentage of covered-employee payroll	-9.91%	11.05%	62.28%	67.56%	53.54%
Proportionate share of plan's fiduciary net position as a percentage of the plan's total pension liability	75.26%	73.31%	74.06%	78.40%	80.43%

*For the year ending on the measurement date

FINAL DRAFT

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Schedule of Pension Contributions**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement period	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially determined contribution	\$ 1,669,920	\$ 1,198,065	\$ 1,287,320	\$ 910,906	\$ 886,335
Contributions in relation to the actuarially determined contribution	<u>1,669,920</u>	<u>4,426,715</u>	<u>7,188,179</u>	<u>910,906</u>	<u>886,335</u>
Contribution excess	<u>\$ -</u>	<u>\$ (3,228,650)</u>	<u>\$ (5,900,859)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll*	\$ 23,706,126	\$ 19,966,458	\$ 16,512,291	\$ 11,010,647	\$ 7,427,745
Contributions as a percentage of covered-employee payroll	7.04%	22.17%	43.53%	8.27%	11.93%

*For the fiscal year ending on the date shown

FINAL DRAFT

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Schedule of Changes in Net Other Post-Employment Benefit Liability**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Measurement period	2017-2018	2016-2017	2015-2016
Total OPEB liability			
Service cost	\$ 1,119,648	\$ 756,248	\$ 736,008
Interest on the total OPEB liability	805,036	708,213	648,807
Actual vs. expected experience	-	(14,700)	-
Assumption changes	-	131,618	-
Benefit payments	<u>(478,669)</u>	<u>(542,029)</u>	<u>(499,704)</u>
Net change in total OPEB liability	1,446,015	1,039,350	885,111
Total OPEB liability, beginning of year	<u>11,046,155</u>	<u>10,006,805</u>	<u>9,121,694</u>
Total OPEB liability, end of year	<u>\$ 12,492,170</u>	<u>\$ 11,046,155</u>	<u>\$ 10,006,805</u>
Plan fiduciary net position			
Contributions from employer	\$ 3,588,109	\$ 1,142,027	\$ 954,155
Net investment income	518,470	551,777	283,871
Benefit payments	(478,669)	(542,029)	(499,704)
Administrative expense	<u>(12,267)</u>	<u>(2,784)</u>	<u>(2,239)</u>
Net change in plan fiduciary net position	3,615,643	1,148,991	736,083
Plan fiduciary net position, beginning of year	<u>6,337,437</u>	<u>5,188,446</u>	<u>4,452,363</u>
Plan fiduciary net position, end of year	<u>\$ 9,953,080</u>	<u>\$ 6,337,437</u>	<u>\$ 5,188,446</u>
Health Authority's net OPEB liability	\$ 2,539,090	\$ 4,708,718	\$ 4,818,359
Plan fiduciary net position as a percentage of the total OPEB liability	79.67%	57.37%	51.85%
Covered-employee payroll*	\$ 20,046,373	\$ 17,216,515	\$ 17,195,643
Health Authority's net OPEB liability as a percentage of covered-employee payroll	12.67%	27.35%	28.02%

*For the year ending on the measurement date

**Santa Clara County Health Authority (dba Santa Clara Family Health Plan)
and Santa Clara Community Health Authority
Schedule of Other Post-Employment Benefit Contributions**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Measurement period	2017-2018	2016-2017	2015-2016
Actuarially determined contribution	\$ 1,269,369	\$ 1,427,237	\$ 1,217,313
Contributions in relation to the actuarially determined contribution	<u>2,601,369</u>	<u>3,588,109</u>	<u>1,217,313</u>
Contribution excess	<u>\$ (1,332,000)</u>	<u>\$ (2,160,872)</u>	<u>\$ -</u>
Covered-employee payroll*	\$ 24,360,228	\$ 20,046,373	\$ 17,195,643
Contributions as a percentage of covered-employee payroll	10.68%	17.90%	7.08%

*For the fiscal year ending on the date shown

FINAL DRAFT

FINAL DRAFT

*Communication with
Those Charged with Governance*

**Santa Clara County Health Authority
(dba Santa Clara Family Health Plan) and
Santa Clara Community Health Authority**

June 30, 2019

Communication with Those Charged with Governance

To the Governing Board
Santa Clara County Health Authority
(dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority

We have audited the combined financial statements of Santa Clara County Health Authority (dba Santa Clara Family Health Plan), and Santa Clara Community Health Authority (collectively the "Health Authority"), as of and for the year ended June 30, 2019, and have issued our report thereon dated [REDACTED], 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated June 3, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the combined financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Our audit of the combined financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health Authority's internal control over financial reporting. Accordingly, we considered the Health Authority's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the combined financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to management, who has been charged by the Governing Board to oversee the audit, during our pre-audit planning meeting on June 12, 2019.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Health Authority are described in Note 1 to the combined financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during 2019. We noted no transactions entered into by the Health Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the combined financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

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

- Management recorded an estimated capitation receivable. The estimated capitation receivable for eligible Medi-Cal program beneficiaries is based upon a historical experience methodology. We have gained an understanding of management's estimate methodology, and have examined the documentation supporting these methodologies and formulas. We found management's basis to be reasonable in relation to the combined financial statements taken as a whole.
- Management recorded an estimated liability for incurred but unpaid claims expense. The estimated liability for unpaid claims is based on management's estimate of historical claims experience and known activity subsequent to year-end. We have gained an understanding of management's estimate methodology, and have examined the documentation supporting these methodologies and formulas. We found management's basis to be reasonable in relation to the combined financial statements taken as a whole.
- Management's estimate of the net pension asset is actuarially determined using assumptions on the long-term rate of return on pension plan assets, the discount rate used to determine the present value of benefit obligations, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the combined financial statements taken as a whole.

- Management's estimate of net other post-employment benefit ("OPEB") liability is actuarially determined using assumptions on the long-term rate of return on OPEB plan assets, the discount rate used to determine the present value of benefit obligations, and changes in healthcare costs. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the combined financial statements taken as a whole.
- Management recorded an estimated liability for the medical loss ratio requirement for Medi-Cal Expansion. The estimated liability is based on management's estimate of revenues and allowable medical expenses related to Medi-Cal Expansion. We have gained an understanding of management's estimate methodology, and have examined the documentation supporting these methodologies and formulas. We found management's process to be reasonable.
- Management recorded an estimated liability for premium deficiency reserve. The estimated liability is based on management's analyses of its expected future medical expenses and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. We have gained an understanding of management's estimate methodology, and have examined the documentation supporting these methodologies and formulas. We found management's basis to be reasonable in relation to the combined financial statements taken as a whole.
- The useful lives of capital assets have been estimated based on the intended use and are within accounting principles generally accepted in the United States of America. We found management's basis to be reasonable in relation to the combined financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the combined financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Health Authority's financial statements relate to medical claims payable, net pension, other-post employment benefit liability, and capitation and premium revenues.

Significant Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected and uncorrected misstatements whose effects, as determined by management, are material, both individually and in the aggregate, to the combined financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the combined financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated [REDACTED], 2019.

Management Consultation with Other Independent Accountants

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

Independence

We are required to disclose to those charged with governance, in writing, all relationships between the auditors and the Health Authority that in the auditor's professional judgment, may reasonably be thought to bear on our independence. We know of no such relationships and confirm that, in our professional judgment, we are independent of the Health Authority within the meaning of professional standards.

Other Significant Audit Findings or Issues

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

This information is intended solely for the use of the Governing Board of Santa Clara County Health Authority (dba Santa Clara Family Health Plan) and Santa Clara Community Health Authority and its management, and is not intended to be, and should not be, used by anyone other than these specified parties.

San Francisco, California,
[REDACTED], 2019

Regular Meeting of the

Santa Clara County Health Authority Executive/Finance Committee

Thursday, August 22, 2019, 11:30 AM - 1:00 PM

Santa Clara Family Health Plan, Boardroom
6201 San Ignacio Ave, San Jose, CA 95119

MINUTES - Draft

Members Present

Bob Brownstein, Chair
Dolores Alvarado
Liz Kniss
Linda Williams

Staff Present

Christine Tomcala, Chief Executive Officer
Dave Cameron, Chief Financial Officer
Robin Larmer, Chief Compliance & Regulatory Affairs
Officer
Jonathan Tamayo, Chief Information Officer
Laura Watkins, VP, Marketing & Enrollment
Neal Jarecki, Controller
Tyler Haskell, Director, Government Relations
Morris Si, Director, Infrastructure & System Support
Jayne Giangreco, Manager, Administrative
Services
Rita Zambrano, Executive Assistant

Others Present

Phillip Vu, Community Health Partnership
Cassidee Brusa, Aroetek
Kylie Noon, Aroetek

1. Roll Call

Bob Brownstein, Chair, called the meeting to order at 11:34 am. Roll call was taken and a quorum was established.

2. Public Comment

There were no public comments.

3. Meeting Minutes

The minutes of the July 25, 2019 Executive/Finance Committee were reviewed.

It was moved, seconded, and the July 25, 2019 Executive/Finance Committee Minutes were unanimously approved.

4. Adjourn to Closed Session

a. Real Property Negotiations

The Executive/Finance Committee met in Closed Session to confer with its Real Property Negotiators concerning the price and terms of payment related to the possible lease of real property located at 408 N. Capital Avenue, San Jose, CA.

5. Report from Closed Session

Mr. Brownstein reported the Executive/Finance Committee met in Closed Session to discuss Item 4(a) Real Property Negotiations.

6. Preliminary June 2019 Financial Statements

Dave Cameron, Chief Financial Officer, presented the preliminary unaudited June 2019 financial statements, which reflected a current month net surplus of \$12.9 million (\$11.4 million favorable to budget) and a fiscal year-to-date surplus of \$29.8 million (\$20.7 million favorable to budget). Enrollment increased by 128 members from the prior month to 249,205 members. Medi-Cal enrollment has generally declined since October 2016 while CMC membership has grown due to continued outreach efforts. Revenue reflected a favorable current month variance of \$18.1 million (22.6%) largely due to several one-time adjustments for revised CY19 CCI rate estimates (\$7.0 million), unanticipated CY17 & CY18 Medicare quality withhold earn-back revenue (\$5.2 million), and reduced estimated DHCS overpayment for institutional members (\$2.8 million), coupled with recurring variances for unbudgeted Prop 56 revenue (\$1.8 million, with an equivalent increase to medical expense) and higher than budgeted non-dual enrollment (\$1.8 million). Medical expense reflected an unfavorable current month variance of \$6.9 million (9.3%) largely due to the combination of increased inpatient, outpatient, institutional and pharmacy expenses (\$4.7 million) and the higher Prop 56 expense noted above (\$1.8 million). Administrative expense reflected an unfavorable current month variance of \$661 thousand (15.2%) due to certain year-end personnel reserves and increased consulting expenses. The balance sheet reflected a Current Ratio of 1.3:1, versus the minimum required by DMHC of 1.0:1. Tangible Net Equity of \$207.8 million represented 677.7% of the minimum required by DMHC of \$30.7 million. Capital investments of \$6.4 million have been made, with certain expenses deferred into the next fiscal year. Results for the fiscal year are currently under review by the Plan's auditors. Audited results will be presented by Moss-Adams, the Plan's auditors, at the October 2019 Executive/Finance Committee meeting.

It was moved, seconded, and the Preliminary June 2019 Financial Statements were unanimously approved.

7. Compliance Update

Robin Larmer, Chief Compliance and Regulatory Affairs Officer, gave an update on the CMS Program Audit, noting the Plan's sustained compliance with the remedial actions. ATTAC Consulting Group is currently conducting the Independent Validation Audit (IVA) to validate the Plan's corrections of the Conditions cited in the CMS Program Audit Final Report. The Compliance Program Effectiveness (CPE) portion of the IVA is complete. The Plan submitted its final data universes for the remaining audit areas on August 16, 2019. Universe integrity testing for those areas will be conducted on August 21 and 23, and fieldwork will begin on August 26, 2019, continuing through September 10, 2019. The independent auditor's report and the CEO's attestation that all Conditions have been corrected must be submitted to CMS by September 30, 2019.

The Medicare Data Validation (MDV) Audit is complete. In all but one area, the Plan received perfect scores; for Grievances Part D, the Plan received a score of 97%. The standard is 100%, and the slight deficiency may affect the final Audit scoring. The Plan is awaiting CMS' final report.

The 2019 Full-Scope Medical Survey with DMHC and DHCS remains ongoing. The Plan received DHCS' final Audit Report and request for corrective actions plans (CAPs) in July, with a total of 19 findings (12 for Medi-Cal

and 6 for Cal MediConnect). On August 12 the DHCS Audit Report and CAP responses were submitted. The Plan has not yet received the DMHC Final Report.

It was moved, seconded, and unanimously approved to accept the Compliance Update.

8. Network Detection and Prevention Update

Jonathan Tamayo, Chief Information Officer, reported on firewall intrusion, detection, and prevention efforts.

It was moved, seconded, and unanimously approved to accept the Network Detection and Prevention Update.

9. Special Project Board Discretionary Fund

Christine Tomcala, Chief Executive Officer, and the Committee discussed potential revisions to the Special Project Board Discretionary Fund Policy (GO.02), and potential focus areas for funding projects. Ms. Tomcala will further revise the policy and funding program, to reflect the Committee's input, for review by the Governing Board at its December meeting.

10. Board Discretionary Fund Expenditure

The Committee discussed a funding request made by The Health Trust and agreed to reconsider this proposal after the Board approves revisions to the Special Project Board Discretionary Fund Policy (GO.02).

11. CEO Update

Ms. Tomcala presented informational material for the Committee's review (Public Charge document, articles regarding Medi-Cal enrollment among immigrant kids and judges' review of the ACA, and a one-page SCFHP At a Glance summary).

Ms. Tomcala reported that Rene Santiago, Deputy County Executive, agreed to increase the income limit on the Valley Kids Program to ensure undocumented children in the 266%-300% FPL income range will continue to have coverage when CCHIP members transition to Medi-Cal and the Healthy Kids program is discontinued. The Board of Supervisors will vote on this August 27, 2019.

Ms. Tomcala noted the Plan began enrolling Health Homes members July 1, 2019, and shared that currently 90 members have been enrolled.

Ms. Tomcala further noted a draft report from the DMHC Financial Audit was received, and indicated there were a few small claims and PDR issues. A response is being prepared and the final report will be presented at the October Executive/Finance Committee meeting.

She also reported there have been new Board appointments - Sherri Sager from Lucile Packard and Alma Burrell from Roots Clinic.

It was moved, seconded, and unanimously approved to accept the CEO Update.

Liz Kniss left at 1:00 pm.

12. Government Relations Update

Tyler Haskell, Director, Government Relations, gave a verbal report on current policy and legislative issues. He noted the Santa Clara County Board of Supervisors is focused on housing and homelessness, real estate and land use transactions, and hospital integration.

He further reported that the Department of Health Care Services' (DHCS) plan for carving-out the Medi-Cal prescription drug benefit is moving forward, though several organizations have expressed concern about timing and various aspects of the plan as it is currently understood. DHCS is preparing to issue an RFP for a statewide PBM.

Mr. Haskell also gave an overview of State legislative matters impacting the Plan. Among the significant measures is AB-1642, which would allow DHCS to sanction plans for additional infractions. Information leading to sanctions can arise from a variety of sources, and each beneficiary impacted will be counted as a separate violation for purposes of calculating sanctions.

Mr. Haskell also noted that the final Public Charge rule changes the interpretation of federal law to include receipt of Medicaid and other benefits in determining whether an applicant for citizenship is a “public charge.” SCFHP is posting a statement of opposition and concern on our website and Facebook.

13. Adjournment

The meeting was adjourned at 1:35 pm.

Robin Larmer, Secretary



Santa Clara Family Health Plan™

Unaudited Financial Statements
For The Month Ended August 31, 2019

Agenda

Table of Contents	Page
Financial Highlights	3 - 4
Detail Analyses:	5
Enrollment	6
Enrollment by Category of Aid	7
Revenue	8
Medical Expense	9
Administrative Expense	10
Balance Sheet	11
Tangible Net Equity	12
Reserves Analysis	13
Capital Expenditures	14
Financial Statements:	15
Income Statement	16
Balance Sheet	17
Cash Flow Statement	18
Statement of Operations by Line of Business	19

Financial Highlights



	<u>MTD</u>		<u>YTD</u>	
Revenue	\$91 M		\$181 M	
Medical Expense (MLR)	\$85 M	93.6%	\$170 M	93.8%
Administrative Expense (% Rev)	\$4.8 M	5.2%	\$9.9 M	5.5%
Other Income/Expense	\$354,779		\$783,371	
Net Surplus (Loss)	\$1,435,550		\$2,127,526	

Cash on Hand	\$291 M
Receivables	\$752 M
Total Current Assets	\$1,056 M
Current Liabilities	\$878 M
Current Ratio	1.20
Tangible Net Equity	\$204 M
% of DMHC Requirements	676.4%

Financial Highlights

Net Surplus (Los)	<ul style="list-style-type: none"> ▶ Month: Surplus of \$1.4M is \$441K or 44.3% favorable to budget of \$995K. ▶ YTD: Surplus of \$2.1M is \$178K or 9.2% favorable to budget of \$1.9M.
Enrollment	<ul style="list-style-type: none"> ▶ Month: Membership was 247,032 (877 or 0.4% favorable budget of 246,155). ▶ YTD: Membership was 495,187 (1,917 or 0.4% favorable budget of 493,270).
Revenue	<ul style="list-style-type: none"> ▶ Month: \$91.2M (\$1.6M or 1.8% favorable to budget of \$89.6M). ▶ YTD: \$180.9M (\$1.7M or 0.9% favorable to budget of \$179.3M).
Medical Expenses	<ul style="list-style-type: none"> ▶ Month: \$85.3M (\$1.5M or 1.8% unfavorable to budget of \$83.8M). ▶ YTD: \$169.7M (\$2.0M or 1.2% unfavorable to budget of \$167.7M).
Administrative Expenses	<ul style="list-style-type: none"> ▶ Month: \$4.8M (\$246K or 4.9% favorable to budget of \$5.0M). ▶ YTD: \$9.9M (\$161K or 1.6% favorable to budget of \$10.1M).
Tangible Net Equity	<ul style="list-style-type: none"> ▶ TNE was \$204.3M (676.4% of minimum DMHC requirement of \$30.2M).
Capital Expenditures	<ul style="list-style-type: none"> ▶ YTD Capital Investments of \$266K vs. \$4.8M annual budget, primarily IT hardware.



**Santa Clara Family
Health Plan™**

Detail Analyses

Enrollment

- Total enrollment has decreased since June 30, 2019 by 2,173 or -0.9%, slightly better than budgeted expectation.
- As detailed on page 7, much of the Medi-Cal enrollment decline has been in the Medi-Cal Non-Dual Child, Adult Expansion and Adult categories of aid. Medi-Cal Dual enrollment has been stable overall while CMC enrollment continues to grow in line with budget due to outreach efforts.
- Membership Trends:
 - Medi-Cal membership has decreased since the beginning of the fiscal year by 1.0%.
 - CMC membership increased since the beginning of the fiscal year by 1.4%.
 - Healthy Kids membership increased since the beginning of the fiscal year by 0.7%.

Santa Clara Family Health Plan Enrollment Summary										
	For the Month of August 2019				For Two Months Ending August 31, 2019				Prior Year Actuals	Δ FY19 vs. FY20
	Actual	Budget	Variance	Variance (%)	Actual	Budget	Variance	Variance (%)		
Medi-Cal	235,389	234,711	678	0.3%	471,967	470,425	1,542	0.3%	493,709	(4.4%)
Cal Medi-Connect	8,134	8,096	38	0.5%	16,210	16,149	61	0.4%	15,063	7.6%
Healthy Kids	3,509	3,348	161	4.8%	7,010	6,696	314	4.7%	6,465	8.4%
Total	247,032	246,155	877	0.4%	495,187	493,270	1,917	0.4%	515,237	(3.9%)

Santa Clara Family Health Plan Enrollment By Network August 2019								
Network	Medi-Cal		CMC		Healthy Kids		Total	
	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total	Enrollment	% of Total
Direct Contract Physicians	30,364	13%	8,134	100%	359	10%	38,857	16%
SCVHHS ¹ , Safety Net Clinics, FQHC ² Clinics	117,073	50%	-	0%	1,551	44%	118,624	48%
Palo Alto Medical Foundation	6,750	3%	-	0%	86	2%	6,836	3%
Physicians Medical Group	41,271	18%	-	0%	1,245	35%	42,516	17%
Premier Care	14,516	6%	-	0%	268	8%	14,784	6%
Kaiser	25,415	11%	-	0%	-	0%	25,415	10%
Total	235,389	100%	8,134	100%	3,509	100%	247,032	100%

Enrollment at June 30, 2019	237,697	8,022	3,486	249,205
Net Δ from Beginning of FY20	-1.0%	1.4%	0.7%	-0.9%

¹ SCVHHS = Santa Clara Valley Health & Hospital System
² FQHC = Federally Qualified Health Center

Enrollment By Aid Category

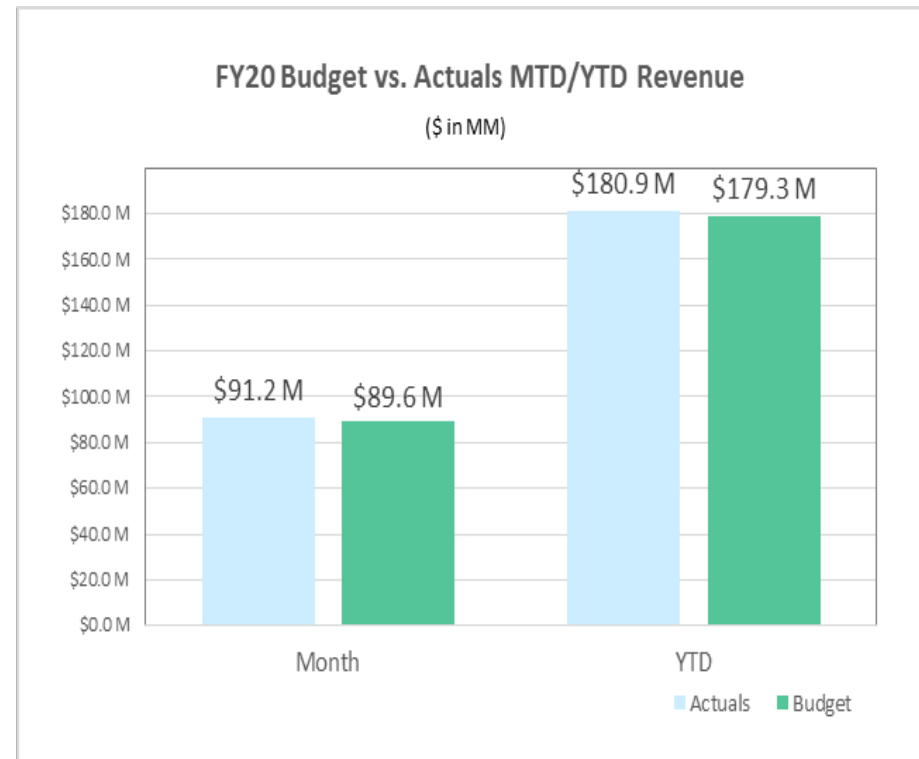
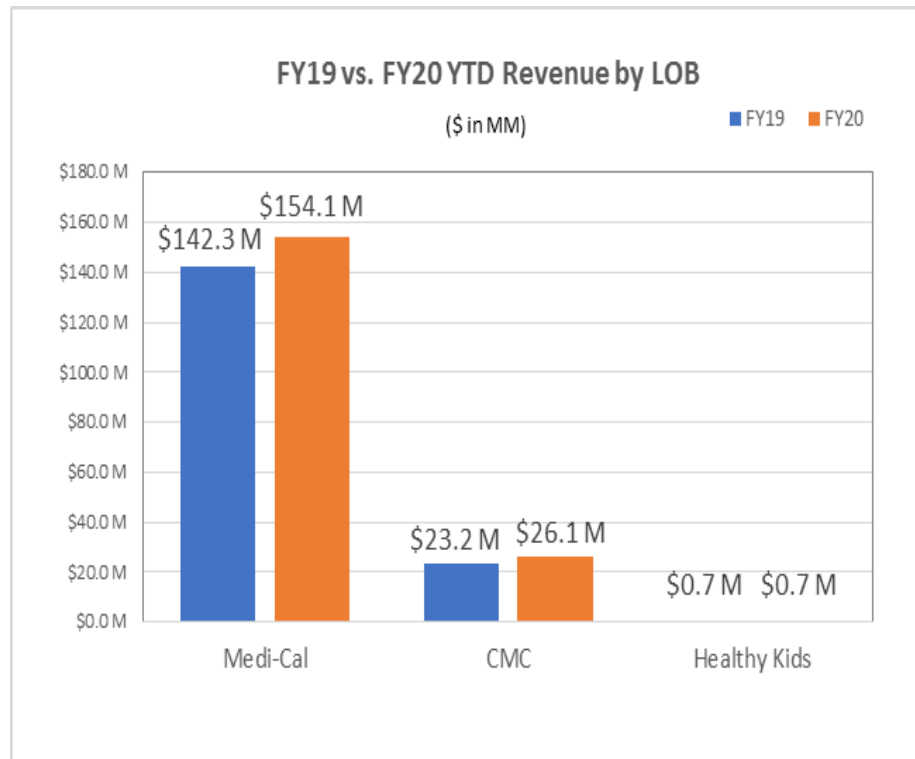
SCFHP TRENDED ENROLLMENT BY COA YTD AUG-19

		2018-07	2018-08	2018-09	2018-10	2018-11	2018-12	2019-01	2019-02	2019-03	2019-04	2019-05	2019-06	2019-07	2019-08	
NON DUAL	Adult (over 19)	27,001	26,652	26,568	26,354	26,213	26,175	25,954	25,846	25,779	25,563	25,198	25,204	24,989	24,888	
	Child (under 19)	99,369	98,316	98,255	97,518	96,830	96,331	95,155	95,177	95,229	94,956	94,255	94,026	93,536	92,668	
	Aged - Medi-Cal Only	10,909	10,815	10,887	10,869	10,887	10,923	10,901	10,963	10,934	10,934	10,949	10,871	10,995	10,948	10,958
	Disabled - Medi-Cal Only	10,742	10,679	10,635	10,611	10,624	10,631	10,629	10,579	10,595	10,678	10,780	10,819	10,774	10,833	
	Adult Expansion	74,261	73,971	73,959	73,601	73,398	73,186	72,075	72,223	72,143	72,114	71,364	71,465	71,082	70,635	
	BCCTP	13	14	13	12	11	11	9	9	8	10	11	11	10	10	
	Long Term Care	382	384	387	379	377	372	371	376	375	375	370	370	372	372	364
	Total Non-Duals	222,676	220,831	220,703	219,343	218,340	217,629	215,093	215,173	215,063	214,644	212,848	212,891	211,711	210,356	
DUAL	Adult (21 Over)	387	385	382	385	390	379	373	376	367	368	354	352	351	345	
	SPD (21 Over)	22,919	22,928	22,984	22,963	22,897	22,893	22,765	22,728	22,725	22,941	23,009	22,988	23,087	23,230	
	Adult Expansion	455	485	521	533	538	586	556	529	479	304	252	253	209	226	
	BCCTP	2	2	2	1	1	1	2	1	1	0	0	0	0	0	
	Long Term Care	1,316	1,323	1,292	1,268	1,233	1,208	1,209	1,203	1,201	1,187	1,192	1,213	1,220	1,232	
	Total Duals	25,079	25,123	25,181	25,150	25,059	25,067	24,905	24,837	24,773	24,800	24,807	24,806	24,867	25,033	
	Total Medi-Cal	247,755	245,954	245,884	244,493	243,399	242,696	239,998	240,010	239,836	239,444	237,655	237,697	236,578	235,389	
Healthy Kids	3,278	3,187	3,163	3,217	3,460	3,345	3,252	3,375	3,348	3,465	3,507	3,486	3,501	3,509		
CMC	CMC Non-Long Term Care	7,302	7,318	7,386	7,383	7,407	7,484	7,540	7,616	7,680	7,661	7,706	7,815	7,869	7,921	
	CMC - Long Term Care	221	222	214	218	218	211	210	198	204	208	209	207	207	213	
	Total CMC	7,523	7,540	7,600	7,601	7,625	7,695	7,750	7,814	7,884	7,869	7,915	8,022	8,076	8,134	
Total Enrollment	258,556	256,681	256,647	255,311	254,484	253,736	251,000	251,199	251,068	250,778	249,077	249,205	248,155	247,032		

Revenue

Current month revenue of \$91.2M is \$1.6M or 1.8% favorable to budget of \$89.6M. This month's variances were due to several factors including Medi-Cal revenue, which is \$1.9M favorable due to:

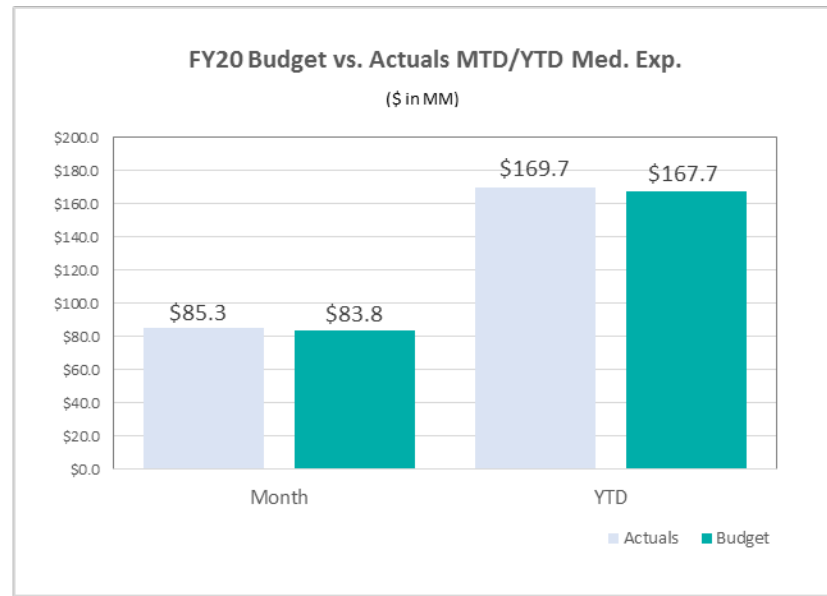
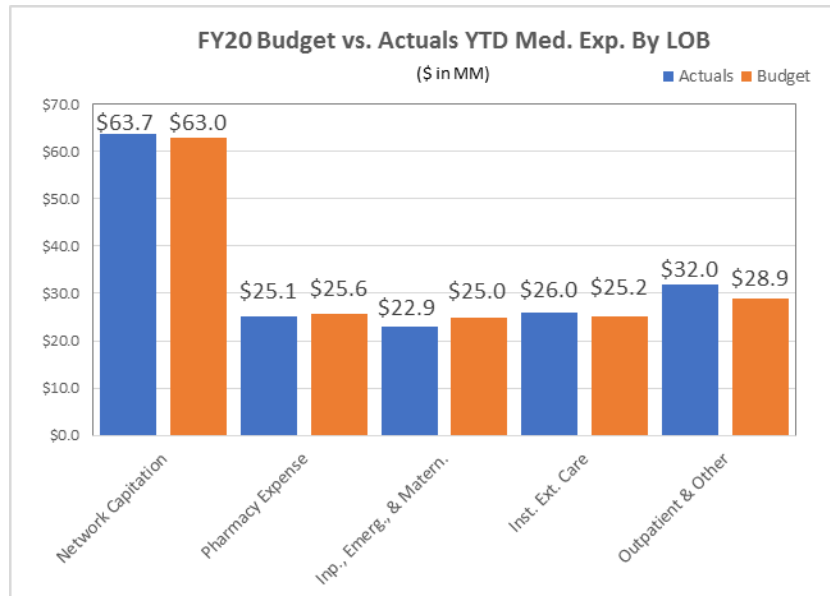
- Higher FY20 rates in the Non-Dual Adult Expansion, Adult, and Long Term Care (LTC) categories of aid (\$545K)
- Higher member months than budget (\$600K)
- BHT revenue is \$500K favorable to budget due to higher utilization.



Medical Expense

Current month medical expense of \$85.3M is \$1.5M or 1.8% unfavorable to budget of \$83.8M. The current month variances were due to a variety of factors, including:

- Capitation expense is \$456K unfavorable due to higher member months than budgeted.
- Medi-Cal LTC, Outpatient Professional and Specialty expenses in excess of budget yielded an unfavorable variance of \$1.0M due to higher average rates versus budget.



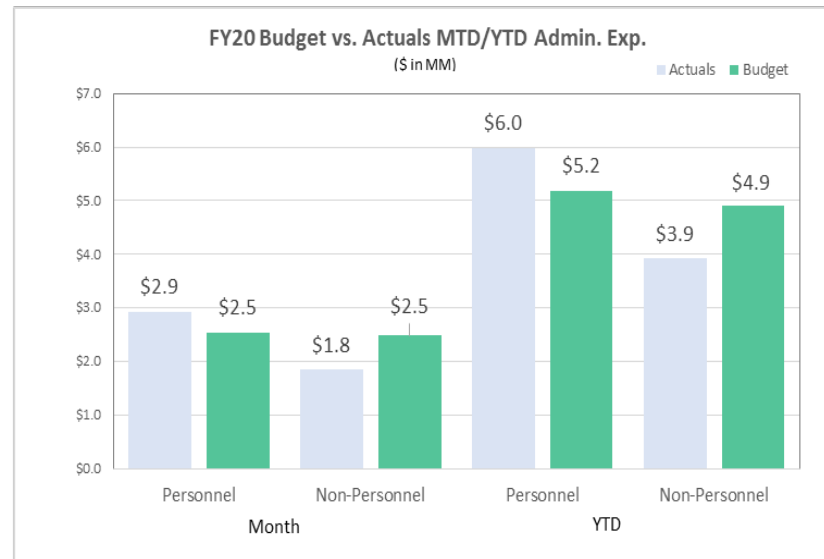
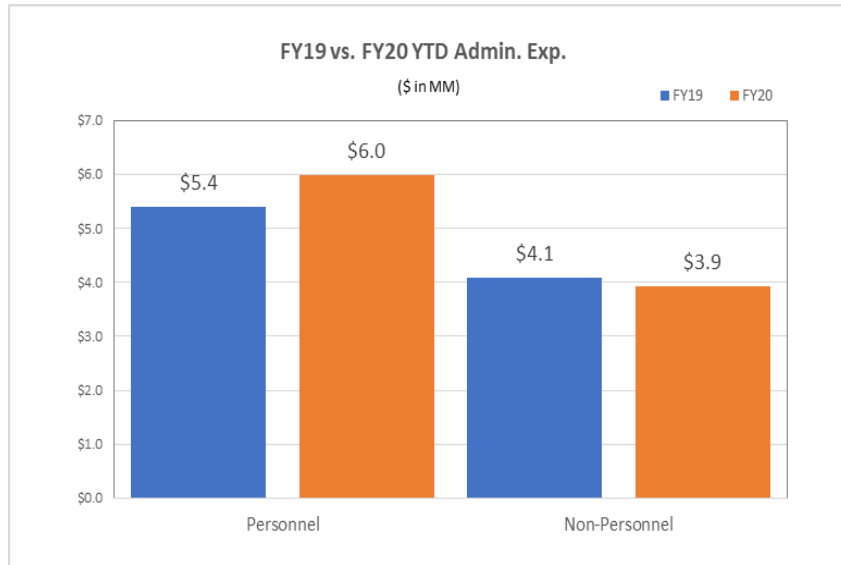
	FY20 Budget vs. Actuals YTD Med. Exp. By LOB			
	Actuals	Budget	Variance	
Network Capitation	\$63.7	\$63.0	(\$0.7)	-1.1%
Pharmacy	\$25.1	\$25.6	\$0.5	2.0%
Inp., Emerg., & Matern.	\$22.9	\$25.0	\$2.1	8.6%
Inst. Ext. Care	\$26.0	\$25.2	(\$0.8)	-3.1%
Outpatient & Other	\$32.0	\$28.9	(\$3.1)	-10.9%
Total Medical Expense	\$169.7	\$167.7	(\$2.0)	-1.2%

	FY20 Budget vs. Actuals MTD/YTD Med. Exp.			
	Actuals	Budget	Variance	
Month	\$85.3	\$83.8	(\$1.5)	-1.8%
YTD	\$169.7	\$167.7	(\$2.0)	-1.2%

Administrative Expense

Current month admin expense of \$4.8M is \$246K or 4.9% favorable to budget of \$5.0M. The current month variances were primarily due to the following:

- Personnel expenses were \$392K or 15.5% unfavorable to budget due to accelerated hiring.
- Non-Personnel expenses were overall \$639K or 25.7% favorable to budget due to the timing of consulting, advertising and postage expenses and reduced Q1 spending versus budget.



	FY19 vs. FY20 YTD Admin. Exp.			
	FY19	FY20	Variance	
Personnel	\$5.4	\$6.0	\$0.6	9.8%
Non-Personnel	\$4.1	\$3.9	(\$0.2)	-4.1%
Total Administrative Expense	\$9.5	\$9.9	\$0.4	4.3%

		FY20 Budget vs. Actuals MTD/YTD Admin. Exp.			
		Actuals	Budget	Variance	
Month	Personnel	\$2.9	\$2.5	-\$0.4	-15.5%
	Non-Personnel	\$1.8	\$2.5	\$0.6	25.7%
	MTD Total	\$4.8	\$5.0	\$0.2	4.9%
YTD	Personnel	\$6.0	\$5.2	-\$0.8	-15.6%
	Non-Personnel	\$3.9	\$4.9	\$1.0	19.8%
	YTD Total	\$9.9	\$10.1	\$0.2	1.6%

Balance Sheet

- Current assets totaled \$1,055M compared to current liabilities of \$878.5M, yielding a current ratio (Current Assets/Current Liabilities) of 1.20:1 vs. the DMHC minimum requirement of 1.0:1.
- Cash balance decreased by \$8.1M compared to the cash balance as of year-end June 30, 2019 due to timing of payments.
- Current Cash & Equivalent components and yields were as follows:
 - Investment yield exceeds budget.

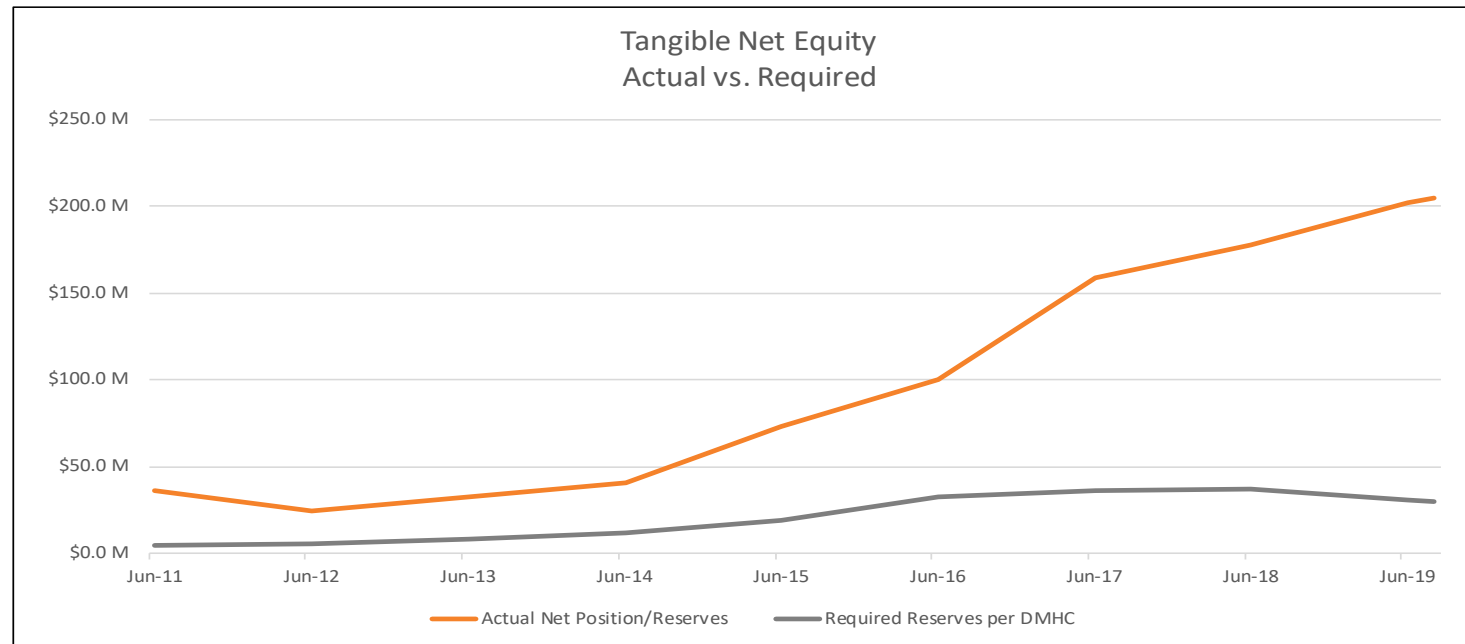
Description	Month-End Balance	Current Yield %	Interest Earned	
			Month	YTD
Short-Term Investments				
County of Santa Clara Comingled Pool	\$79,235,260	1.95%	\$100,000	\$200,000
Cash & Equivalents				
Bank of the West Money Market	\$76,614	1.12%	\$4,655	\$14,195
Wells Fargo Bank Accounts	\$211,707,610	1.99%	\$362,122	\$789,201
	\$211,784,225		\$366,777	\$803,396
Assets Pledged to DMHC				
Restricted Cash	\$305,350	0.42%	\$0	\$13
Petty Cash	\$500	0.00%	\$0	\$0
Total Cash & Equivalents	\$291,325,334		\$466,777	\$1,003,408

Tangible Net Equity

- TNE was \$204.3M or 676.4% of the most recent quarterly DMHC minimum requirement of \$30.2M.
- TNE trends are presented below:

Santa Clara Health Authority
Tangible Net Equity - Actual vs. Required
As of August 31, 2019

	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Aug-19
Actual Net Position/Reserves	\$36.1 M	\$24.2 M	\$32.6 M	\$40.9 M	\$72.6 M	\$100.3 M	\$158.4 M	\$178.0 M	\$202.1 M	\$204.3 M
Required Reserves per DMHC	\$5.0 M	\$5.9 M	\$7.8 M	\$11.4 M	\$19.3 M	\$32.4 M	\$35.9 M	\$36.8 M	\$30.9 M	\$30.2 M
200% of Required Reserve	\$10.0 M	\$11.8 M	\$15.6 M	\$22.9 M	\$38.5 M	\$64.8 M	\$71.8 M	\$73.6 M	\$61.8 M	\$60.4 M
Actual as % Required	722.5%	410.2%	418.5%	357.5%	376.9%	309.8%	441.2%	483.4%	654.4%	676.4%



Reserves Analysis

SCFHP RESERVES ANALYSIS August 2019	
Financial Reserve Target #1: Tangible Net Equity	
Actual TNE	204,253,278
Current Required TNE	30,198,072
Excess TNE	174,055,207
Required TNE %	676.4%
SCFHP Target TNE Range:	
350% of Required TNE (Low)	105,693,251
500% of Required TNE (High)	150,990,359
TNE Above/(Below) SCFHP Low Target	98,560,027
TNE Above/(Below) High Target	53,262,919
Financial Reserve Target #2: Liquidity	
Cash & Cash Equivalents	291,325,334
Less Pass-Through Liabilities	
Other Pass-Through Liabilities	(17,664,845)
Total Pass-Through Liabilities	(17,664,845)
Net Cash Available to SCFHP	273,660,489
SCFHP Target Liability	
45 Days of Total Operating Expense	(133,202,869)
60 Days of Total Operating Expense	(177,603,825)
Liquidity Above/(Below) SCFHP Low Target	140,457,620
Liquidity Above/(Below) High Target	96,056,664

Note 1: In December 2018, the Governing Board established a Board Discretionary Fund of \$2.2M. The specific projects/recipients have yet to be determined.

Note 2: Other Pass-Through Liabilities include Prop 56 and other provider payables.

Note 3: SCFHP Target Liability policy is based on monthly budget.

Capital Expenditures

Expenditure	YTD Actual	Annual Budget
Hardware	\$177,369	\$620,000
Software	\$38,112	\$1,029,000
Building Improvements	\$50,213	\$3,149,500
TOTAL	\$265,693	\$4,798,500



**Santa Clara Family
Health Plan™**

Financial Statements

Income Statement



Santa Clara County Health Authority INCOME STATEMENT For Two Months Ending August 31, 2019

	Aug-2019	% of	Aug-2019	% of	Current Month Variance		YTD Aug-2019	% of	YTD Aug-2019	% of	YTD Variance	
	Actuals	Rev	Budget	Rev	\$	%	Actuals	Rev	Budget	Rev	\$	%
REVENUES												
MEDI-CAL	\$ 77,777,458	85.3%	\$ 75,375,188	84.2%	\$ 2,402,271	3.2%	\$ 154,099,617	85.2%	\$ 150,970,755	84.2%	\$ 3,128,862	2.1%
CMC MEDI-CAL	2,654,223	2.9%	2,822,687	3.2%	(168,464)	-6.0%	5,290,822	2.9%	5,630,381	3.1%	(339,559)	-6.0%
CMC MEDICARE	10,360,913	11.4%	11,006,998	12.3%	(646,084)	-5.9%	20,812,080	11.5%	21,955,534	12.2%	(1,143,454)	-5.2%
TOTAL CMC	13,015,136	14.3%	13,829,684	15.4%	(814,548)	-5.9%	26,102,902	14.4%	27,585,916	15.4%	(1,483,014)	-5.4%
HEALTHY KIDS	367,416	0.4%	347,857	0.4%	19,559	5.6%	739,571	0.4%	695,714	0.4%	43,856	6.3%
TOTAL REVENUE	\$ 91,160,011	100.0%	\$ 89,552,729	100.0%	\$ 1,607,282	1.8%	\$ 180,942,090	100.0%	\$ 179,252,385	100.0%	\$ 1,689,705	0.9%
MEDICAL EXPENSES												
MEDI-CAL	\$ 71,640,650	78.6%	\$ 70,450,111	78.7%	\$ (1,190,538)	-1.7%	\$ 143,713,389	79.4%	\$ 141,131,113	78.7%	\$ (2,582,277)	-1.8%
CMC MEDI-CAL	2,682,303	2.9%	2,976,765	3.3%	294,462	9.9%	5,230,127	2.9%	5,938,013	3.3%	707,886	11.9%
CMC MEDICARE	10,644,097	11.7%	9,974,884	11.1%	(669,213)	-6.7%	20,160,144	11.1%	19,892,717	11.1%	(267,427)	-1.3%
TOTAL CMC	13,326,400	14.6%	12,951,649	14.5%	(374,750)	-2.9%	25,390,271	14.0%	25,830,729	14.4%	440,459	1.7%
HEALTHY KIDS	332,691	0.4%	374,468	0.4%	41,778	11.2%	574,578	0.3%	748,937	0.4%	174,359	23.3%
TOTAL MEDICAL EXPENSES	\$ 85,299,740	93.6%	\$ 83,776,229	93.5%	\$ (1,523,511)	-1.8%	\$ 169,678,238	93.8%	\$ 167,710,779	93.6%	\$ (1,967,459)	-1.2%
MEDICAL OPERATING MARGIN	\$ 5,860,271	6.4%	\$ 5,776,500	6.5%	\$ 83,771	1.5%	\$ 11,263,852	6.2%	\$ 11,541,606	6.4%	\$ (277,754)	-2.4%
ADMINISTRATIVE EXPENSE												
SALARIES AND BENEFITS	\$ 2,930,498	3.2%	\$ 2,538,128	2.8%	\$ (392,370)	-15.5%	\$ 5,987,080	3.3%	\$ 5,177,154	2.9%	\$ (809,926)	-15.6%
RENTS AND UTILITIES	27,337	0.0%	11,917	0.0%	(15,420)	-129.4%	42,059	0.0%	39,134	0.0%	(2,925)	-7.5%
PRINTING AND ADVERTISING	41,580	0.0%	78,613	0.1%	37,033	47.1%	68,449	0.0%	127,226	0.1%	58,777	46.2%
INFORMATION SYSTEMS	216,630	0.2%	302,410	0.3%	85,780	28.4%	562,754	0.3%	649,820	0.4%	87,067	13.4%
PROF FEES/CONSULTING/TEMP STAFFING	896,398	1.0%	1,322,763	1.5%	426,365	32.2%	1,916,968	1.1%	2,519,821	1.4%	602,853	23.9%
DEPRECIATION/INSURANCE/EQUIPMENT	297,940	0.3%	380,979	0.4%	83,039	21.8%	681,769	0.4%	771,878	0.4%	90,109	11.7%
OFFICE SUPPLIES/POSTAGE/TELEPHONE	93,798	0.1%	77,741	0.1%	(16,057)	-20.7%	153,681	0.1%	155,882	0.1%	2,201	1.4%
MEETINGS/TRAVEL/DUES	95,697	0.1%	112,882	0.1%	17,186	15.2%	173,324	0.1%	240,724	0.1%	67,400	28.0%
OTHER	179,621	0.2%	200,250	0.2%	20,629	10.3%	333,614	0.2%	399,250	0.2%	65,636	16.4%
TOTAL ADMINISTRATIVE EXPENSES	\$ 4,779,500	5.2%	\$ 5,025,683	5.6%	\$ 246,183	4.9%	\$ 9,919,697	5.5%	\$ 10,080,889	5.6%	\$ 161,192	1.6%
OPERATING SURPLUS (LOSS)	\$ 1,080,771	1.2%	\$ 750,817	0.8%	\$ 329,954	43.9%	\$ 1,344,154	0.7%	\$ 1,460,717	0.8%	\$ (116,563)	-8.0%
ALLOWANCE FOR UNCOLLECTED PREMIUM	-377	0.0%	0	0.0%	377	0.0%	473	0.0%	0	0.0%	(473)	0.0%
GASB 75 - POST EMPLOYMENT BENEFITS EXPENSE	59,780	0.1%	60,000	0.1%	220	0.4%	119,559	0.1%	120,000	0.1%	441	0.4%
GASB 68 - UNFUNDED PENSION LIABILITY	75,000	0.1%	75,000	0.1%	0	0.0%	150,000	0.1%	150,000	0.1%	0	0.0%
NON-OPERATING EXPENSES	\$ 134,403	0.1%	\$ 135,000	0.2%	\$ 597	0.4%	\$ 270,032	0.1%	\$ 270,000	0.2%	\$ (32)	0.0%
INTEREST & OTHER INCOME	489,182	0.5%	379,225	0.4%	109,957	29.0%	1,053,404	0.6%	758,450	0.4%	294,953	38.9%
NET NON-OPERATING ACTIVITIES	\$ 354,779	0.4%	\$ 244,225	0.3%	\$ 110,554	45.3%	\$ 783,371	0.4%	\$ 488,450	0.3%	\$ 294,921	60.4%
NET SURPLUS (LOSS)	\$ 1,435,550	1.6%	\$ 995,042	1.1%	\$ 440,508	44.3%	\$ 2,127,526	1.2%	\$ 1,949,167	1.1%	\$ 178,359	9.2%

Balance Sheet



SANTA CLARA COUNTY HEALTH AUTHORITY
For Two Months Ending August 31, 2019

	Aug-2019	Jul-2019	Jun-2019	Aug-2018
<u>Assets</u>				
Current Assets				
Cash and Marketable Securities	291,325,334	288,050,069	299,422,504	235,488,838
Receivables	752,169,795	744,725,861	751,127,472	497,747,681
Prepaid Expenses and Other Current Assets	12,070,465	11,465,989	12,078,741	7,792,801
Total Current Assets	1,055,565,595	1,044,241,919	1,062,628,717	741,029,320
Long Term Assets				
Property and Equipment	45,024,463	44,987,513	44,758,770	42,306,060
Accumulated Depreciation	(18,023,037)	(17,697,374)	(17,366,530)	(14,888,918)
Total Long Term Assets	27,001,425	27,290,140	27,392,239	27,417,142
Total Assets	1,082,567,020	1,071,532,059	1,090,020,956	768,446,462
Deferred Outflow of Resources	9,237,609	9,237,609	9,237,609	14,535,240
Total Assets & Deferred Outflows	1,091,804,629	1,080,769,668	1,099,258,565	782,981,702
<u>Liabilities and Net Assets:</u>				
Current Liabilities				
Trade Payables	6,415,364	6,980,419	6,205,578	5,065,862
Employee Benefits	1,690,637	1,808,174	1,821,153	1,527,690
Retirement Obligation per GASB 75	4,062,845	4,003,066	3,943,286	5,002,354
Advance Premium - Healthy Kids	95,965	98,208	91,917	80,809
Deferred Revenue - Medicare	9,997,983	-	0	19,419,939
Whole Person Care / Prop 56	17,664,845	19,703,965	17,810,066	6,746,391
IGT, HQAF, Other Provider Payables	305,128,711	303,266,025	298,881,608	12,243,870
MCO Tax Payable - State Board of Equalization	-	0	26,353,889	18,113,329
Due to DHCS	28,372,563	27,506,572	26,789,200	28,918,777
Liability for In Home Support Services (IHSS)	416,092,527	416,092,527	416,092,526	413,549,551
Current Premium Deficiency Reserve (PDR) - AOC Data	8,294,025	8,294,025	8,294,025	8,294,025
Current Premium Deficiency Reserve (PDR)	2,374,525	2,374,525	2,374,525	2,374,525
Medical Cost Reserves	86,591,338	87,129,411	87,855,016	80,296,993
Total Current Liabilities	878,487,303	868,962,891	888,218,764	593,340,090
Non-Current Liabilities				
Noncurrent Premium Deficiency Reserve (PDR)	5,919,500	5,919,500	5,919,500	5,919,500
Net Pension Liability GASB 68	150,000	75,000.00	0	1,974,796
Total Non-Current Liabilities	6,069,500	5,994,500	5,919,500	7,894,296
Total Liabilities	884,556,803	874,957,391	894,138,264	601,234,386
Deferred Inflow of Resources	2,994,548	2,994,548	2,994,548	4,034,640
Net Assets				
Invested in Capital Assets	27,001,425	27,290,140	27,392,239	27,417,142
Restricted under Knox-Keene agreement	305,350	305,350	305,350	305,350
Board Designated Reserve	2,200,000	2,200,000	2,200,000	0
Unrestricted Net Equity	172,618,977	172,330,263	148,118,274	150,293,371
Current YTD Income (Loss)	2,127,526	691,976	24,109,890	(303,187)
Total Net Assets / Reserves	204,253,278	202,817,728	202,125,753	177,712,676
Total Liabilities, Deferred Inflows and Net Assets	1,091,804,629	1,080,769,668	1,099,258,565	782,981,702

Cash Flow – YTD

	<u>Aug-2019</u>	<u>Year-to-date</u>
Cash Flows from Operating Activities		
Premiums Received	84,582,068	155,129,241
Medical Expenses Paid	(83,975,128)	(164,694,814)
Administrative Expenses Paid	2,137,037	601,636
Net Cash from Operating Activities	2,743,977	(8,963,936)
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(36,949)	(265,693)
Cash Flows from Investing Activities		
Interest Income and Other Income (Net)	489,182	1,053,404
Net Increase/(Decrease) in Cash & Cash Equivalents	3,196,209	(8,176,226)
Cash & Cash Equivalents (Beginning)	288,050,069	299,422,504
Cash & Cash Equivalents (Ending)	291,246,278	291,246,278
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating Income/(Loss)	946,368	1,074,122
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities		
Depreciation	246,608	577,451
Changes in Operating Assets/Liabilities		
Premiums Receivable	(7,443,934)	(1,042,323)
Other Receivable	-	-
Due from Santa Clara Family Health Foundation	-	-
Prepays & Other Assets	(604,476)	8,276
Deferred Outflow of Resources	-	-
Accounts Payable & Accrued Liabilities	7,333,808	10,055,639
State Payable	865,992	(24,770,525)
IGT, HQAF & Other Provider Payables	1,862,686	6,247,103
Net Pension Liability	75,000	150,000
Medical Cost Reserves & PDR	(538,073)	(1,263,678)
IHSS Payable	-	(1)
Deferred Inflow of Resources	-	-
Total Adjustments	1,797,609	(10,038,058)
Net Cash from Operating Activities	2,743,977	(8,963,936)

Statement of Operations by Line of Business - YTD



Santa Clara County Health Authority Statement of Operations By Line of Business (Including Allocated Expenses) For Two Months Ending August 31, 2019						
	Medi-Cal	CMC Medi-Cal	CMC Medicare	Total CMC	Healthy Kids	Grand Total
P&L (ALLOCATED BASIS)						
REVENUE	\$154,099,617	\$5,290,822	\$20,812,080	\$26,102,902	\$739,571	\$180,942,090
MEDICAL EXPENSE (MLR)	\$143,713,389	\$5,230,127	\$20,160,144	\$25,390,271	\$574,578	\$169,678,238
GROSS MARGIN	\$10,386,228	\$60,695	\$651,936	\$712,631	\$164,993	\$11,263,852
ADMINISTRATIVE EXPENSE (% of Revenue Allocation)	\$8,448,126	\$290,056	\$1,140,970	\$1,431,026	\$40,545	\$9,919,697
OPERATING INCOME/(LOSS) (% of Revenue Allocation)	\$1,938,102	(\$229,361)	(\$489,034)	(\$718,395)	\$124,448	\$1,344,154
OTHER INCOME/(EXPENSE) (% of Revenue Allocation)	\$667,159	\$22,906	\$90,104	\$113,010	\$3,202	\$783,371
NET INCOME/(LOSS)	\$2,605,261	(\$206,455)	(\$398,930)	(\$605,385)	\$127,650	\$2,127,526
PMPM (ALLOCATED BASIS)						
REVENUE	\$326.51	\$326.39	\$1,283.90	\$1,610.30	\$105.50	\$365.40
MEDICAL EXPENSES	\$304.50	\$322.65	\$1,243.69	\$1,566.33	\$81.97	\$342.65
GROSS MARGIN	\$22.01	\$3.74	\$40.22	\$43.96	\$23.54	\$22.75
ADMINISTRATIVE EXPENSES	\$17.90	\$17.89	\$70.39	\$88.28	\$5.78	\$20.03
OPERATING INCOME/(LOSS)	\$4.11	(\$14.15)	(\$30.17)	(\$44.32)	\$17.75	\$2.71
OTHER INCOME/(EXPENSE)	\$1.41	\$1.41	\$5.56	\$6.97	\$0.46	\$1.58
NET INCOME/(LOSS)	\$5.52	(\$12.74)	(\$24.61)	(\$37.35)	\$18.21	\$4.30
ALLOCATION BASIS:						
MEMBER MONTHS - YTD	471,967	16,210	16,210	16,210	7,010	495,187
REVENUE BY LOB	85.2%	2.9%	11.5%	14.4%	0.4%	100.0%