Report of Independent Auditors and Financial Statements with Supplementary Information

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

June 30, 2025 and 2024

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Management's Discussion and Analysis

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

Management's Discussion and Analysis

The intent of management's discussion and analysis of CalOptima Health's financial performance is to provide readers with an overview of the agency's financial activities for the fiscal years ended June 30, 2025, 2024, and 2023. Readers should review this summation in conjunction with CalOptima Health's financial statements and accompanying notes to the financial statements to enhance their understanding of CalOptima Health's financial performance.

Key Operating Indicators

The table below compares key operating indicators for CalOptima Health for the fiscal years ended June 30, 2025, 2024, and 2023:

Key Operating Indicators	2025	2024	2023
Members (at end of fiscal period)			
Medi-Cal program	886,034	901,303	970,590
OneCare	17,664	17,253	17,687
OneCare Connect	-	-	-
PACE	515	496	439
Average member months			
Medi-Cal program	892,630	932,770	940,893
OneCare	17,280	17,488	17,443
OneCare Connect	-	-	14,360
PACE	506	457	434
Operating revenues (in millions)	$ 5,033	$ 5,372	$ 4,239
Operating expenses (in millions)			
Medical expenses	4,621	4,403	3,862
Administrative expenses	260	230	192
Operating income (in millions)	$ 151	$ 739	$ 184
Operating revenues PMPM (per member per month)	$ 441	$ 471	$ 369
Operating expenses PMPM			
Medical expenses PMPM	405	395	336
Administrative expenses PMPM	23	20	17
Operating income PMPM	$ 13	$ 56	$ 16
Medical loss ratio	91.8%	82.0%	91.0%
Administrative expenses ratio	5.2%	4.3%	4.5%
Premium tax revenue and expenses not included above			
Operating revenues (in millions)	$ 870	$ 658	$ 90
Administrative expenses (in millions)	$ 864	$ 658	$ 92

Overview of the Financial Statements

This annual report consists of financial statements and notes to those statements, which reflect CalOptima Health's financial position as of June 30, 2025, 2024, and 2023, and the results of its operations for the fiscal years ended June 30, 2025, 2024, and 2023. The financial statements of CalOptima Health, including the statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows, represent the accounts and transactions of the five (5) lines of business – Medi-Cal, OneCare, OneCare Connect, Program of All-Inclusive Care for the Elderly (PACE), Multipurpose Senior Services Program (MSSP), and Covered California start-up costs.

- The statements of net position include all of CalOptima Health's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, as well as an indication about which assets and deferred outflows of resources are utilized to fund obligations to providers and which are restricted as a matter of the CalOptima Health Board of Directors (Board) policy.

- The statements of revenues, expenses, and changes in net position present the results of operating activities during the fiscal years and the resulting increase or decrease in net position.

- The statements of cash flows report the net cash provided by or used in operating activities, as well as other sources and uses of cash from investing, capital, and related financing activities.

The following discussion and analysis address CalOptima Health's overall program activities. CalOptima Health's Medi-Cal program accounted for 90.9 percent, 91.5 percent, and 89.9 percent, of its annual revenues during fiscal years 2025, 2024, and 2023, respectively. OneCare accounted for 8.1 percent, 7.6 percent, and 5.1 percent of its annual revenues during fiscal years 2025, 2024, and 2023, respectively. PACE accounted for 1.1 percent, 0.9 percent, and 1.0 percent of its annual revenues during fiscal years 2025, 2024, and 2023, respectively. OneCare Connect, which ended on December 31, 2022, accounted for 0.0 percent, 0.0 percent, and 4.1 percent of its annual revenues during fiscal years 2025, 2024, and 2023, respectively.

Beginning January 1, 2024, a new law in California provided full-scope Medi-Cal eligibility to adults ages 26 through 49, regardless of immigration status. This initiative, called the Ages 26 through 49 Adult Expansion, is modeled after the Young Adult Expansion, which provided full scope Medi-Cal to young adults 19 through 25, and the Older Adult Expansion, which provided full scope Medi-Cal to adults 50 years of age or older. The enrollment increase from the Adult Expansion program was offset by the transition of Kaiser members out to its own Medi-Cal contract. In its new 2024 contract, the State of California (the State) also required CalOptima Health to commit a percentage of its net position towards investments into the community and an additional percentage if CalOptima Health did not meet specified quality measures established by the State referred to as Community Reinvestment and Quality Achievement.

In June 2025, CalOptima Health filed to expand its Knox-Keene Act License to participate in the State's Health Insurance Marketplace, Covered California. CalOptima Health is preparing to launch a Covered California line of business effective January 1, 2027.

CalOptima Health contracted with Deloitte Consulting LLP to perform an operational gap analysis to ensure operational readiness before entering the Health Insurance Marketplace. Moreover, CalOptima Health continues to negotiate provider contracts and execute contract amendments with several existing vendors to include Covered California in their scopes of service.

2025 and 2024 Financial Highlights

As of June 30, 2025 and 2024, total assets and deferred outflows of resources were approximately $4,420.8 million and $4,182.3 million, respectively, and exceeded liabilities and deferred inflows of resources by approximately $2,800.6 million and $2,445.1 million, respectively.

Net position increased by approximately $355.5 million, or 14.5 percent, during fiscal year 2025 and increased by approximately $775.1 million, or 46.4 percent, during fiscal year 2024.

Table 1a: Condensed Statements of Net Position as of June 30,
(Dollars in Thousands)

Financial Position	2025	2024	Change from 2024 Amount	Change from 2024 Percentage
ASSETS				
Current assets	$ 2,576,425	$ 2,871,751	$ (295,326)	-10.3%
Board-designated assets and restricted cash	1,717,108	1,138,063	579,045	50.9%
Capital assets, net	79,772	77,270	2,502	3.2%
Intangible right-to-use subscription asset	18,851	19,291	(440)	100.0%
Total assets	4,392,156	4,106,375	285,781	7.0%
DEFERRED OUTFLOWS OF RESOURCES	28,626	75,899	(47,273)	-62.3%
Total assets and deferred outflows of resources	$ 4,420,782	$ 4,182,274	$ 238,508	5.7%
LIABILITIES				
Current liabilities	$ 1,493,285	$ 1,547,922	$ (54,637)	-3.5%
Other liabilities	111,434	170,028	(58,594)	-34.5%
Subscription liability, net of current portion	11,170	10,596	574	100.0%
Total liabilities	1,615,889	1,728,546	(112,657)	-6.5%
DEFERRED INFLOWS OF RESOURCES	4,310	8,646	(4,336)	-50.2%
NET POSITION				
Net investment in capital assets	80,810	78,830	1,980	2.5%
Restricted by legislative authority	129,342	127,853	1,489	1.2%
Unrestricted	2,590,431	2,238,399	352,032	15.7%
Total net position	2,800,583	2,445,082	355,501	14.5%
Total liabilities, deferred inflows of resources, and net position	$ 4,420,782	$ 4,182,274	$ 238,508	5.7%

Current assets decreased $295.3 million from $2,871.8 million in 2024 to $2,576.4 million in 2025, primarily due to a $510 million transfer of cash and investments to Board-designated assets and restricted cash, and offset by an increase in Managed Care Organization (MCO) tax receivable from the State. Current liabilities decreased $54.6 million from $1,547.9 million in 2024 to $1,493.3 million in 2025, due to recoupment of payables due to the State.

Other liabilities decreased $58.6 million from $170.0 million in 2024 to $111.4 million in 2025 driven primarily by a decrease in net pension liabilities.

Board-designated assets and restricted cash increased by $579.0 million and $561.2 million in fiscal years 2025 and 2024, respectively, with the increases primarily driven by policy updates approved by the Board. In April 2025, the Board approved updates to the Board-designated reserve level from between 2.5 months to 3.0 months of consolidated capitation revenue to between 2.5 months to 4.0 months of consolidated capitation revenue.

The Board's policy increased the Board-designated reserves to provide a desired level of funds between 2.5 months and 4.0 months of consolidated capitation revenue to provide additional stability during potential delays of capitation revenue and regulatory updates or program changes in Medi-Cal eligibility or covered services. CalOptima Health's reserve level of Tier One investment portfolios as of June 30, 2025, was at 3.79 times the monthly average consolidated capitation revenue. CalOptima Health's Tier Two investment portfolios are statutory designated reserves to meet the Tangible Net Equity (TNE) requirements. The desired level is between 100 percent to 110 percent of the requirement and CalOptima Health's total reserve level as of June 30, 2025, stood at 102 percent the minimum required TNE. CalOptima Health's total reserve level as of June 30, 2024, was at 103 percent of the minimum required TNE.

CalOptima Health is also required to maintain a $300,000 restricted deposit as a part of the Knox-Keene Health Care Service Plan Act of 1975 (the Act).

2024 and 2023 Financial Highlights

As of 2024 and 2023, total assets and deferred outflows of resources were approximately $4,182.3 million and $3,624.3 million, respectively, and exceeded liabilities and deferred inflows of resources by approximately $2,445.1 million and $1,670.0 million, respectively.

Net position increased by approximately $775.1 million, or 46.4 percent, during fiscal year 2024 and increased by approximately $250.5 million, or 17.6 percent, during fiscal year 2023.

Table 1b: Condensed Statements of Net Position as of June 30,
(Dollars in Thousands)

Financial Position	2024	2023	Change from 2023 Amount	Change from 2023 Percentage
ASSETS				
Current assets	$ 2,871,751	$ 2,937,296	$ (65,545)	-2.2%
Board-designated assets and restricted cash	1,138,063	576,852	561,211	97.3%
Capital assets, net	77,270	66,189	11,081	16.7%
Intangible right-to-use subscription asset	19,291	18,018	1,273	0.0%
Total assets	4,106,375	3,598,355	508,020	14.1%
DEFERRED OUTFLOWS OF RESOURCES	75,899	25,969	49,930	192.3%
Total assets and deferred outflows of resources	$ 4,182,274	$ 3,624,324	$ 557,950	15.4%
LIABILITIES				
Current liabilities	$ 1,547,922	$ 1,871,529	$ (323,607)	-17.3%
Other liabilities	170,028	59,440	110,588	186.0%
Subscription liability, net of current portion	10,596	12,173	(1,577)	0.0%
Total liabilities	1,728,546	1,943,142	(214,596)	-11.0%
DEFERRED INFLOWS OF RESOURCES	8,646	11,176	(2,530)	-22.6%
NET POSITION				
Net investment in capital assets	78,830	66,134	12,696	19.2%
Restricted by legislative authority	127,853	107,969	19,884	18.4%
Unrestricted	2,238,399	1,495,903	742,496	49.6%
Total net position	2,445,082	1,670,006	775,076	46.4%
Total liabilities, deferred inflows of resources, and net position	$ 4,182,274	$ 3,624,324	$ 557,950	15.4%

Current assets decreased $65.5 million from $2,937.3 million in 2023 to $2,871.8 million in 2024, primarily in cash and investments. Current liabilities decreased $323.6 million from $1,871.5 million in 2023 to $1,547.9 million in 2024. This was driven primarily from the release of accrued payables due to the State for the COVID-19 risk corridor post the Bridge Period (July 1, 2019 through December 31, 2020), the Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) risk corridors for the period of January 1, 2021 through 2024, the Enhanced Care Management (ECM) risk corridor for the period of January 1, 2022 through 2024, Unsatisfactory Immigration Status (UIS) risk corridor for the period January 1, 2024 through June 30, 2024. In April 2024, the State finalized the calendar year 2021 Proposition 56 risk corridor and a payment was remitted to the State in May 2024 in the amount of $47.2 million. During fiscal year 2024, CalOptima Health submitted supplemental data requests to the State for the Bridge Period COVID-19 risk corridor and calendar year 2022 ECM risk corridor. The final report has not been received as of this writing.

Other liabilities increased $110.6 million from $59.4 million in 2023 to $170 million in 2024 driven primarily by the State's requirement for CalOptima Health to commit a percentage of net position towards investments into the community and an additional percentage if CalOptima Health does not meet State specified quality measures referred to as Community Reinvestment and Quality Achievement.

Board-designated assets and restricted cash increased by $561.2 million and decreased by $34.6 million in fiscal years 2024 and 2023, respectively, with the 2024 increase primarily driven by policy updates approved by the Board in May 2024 which updated the Board-designated reserve level from between 1.4 months to 2.0 months of consolidated capitation revenue to between 2.5 months to 3.0 months of consolidated capitation revenue. The Board also established a separate statutory designated reserve to meet the minimum TNE requirement.

The Board's policy augmented the Tier One investment portfolio as Board-designated reserves to provide a desired level of funds between 2.5 months and 3.0 months of consolidated capitation revenue to meet future contingencies. CalOptima Health's reserve level of Tier One investment portfolios as of June 30, 2024, was at 2.82 times the monthly average consolidated capitation revenue. CalOptima Health's Tier Two investment portfolios are statutory designated reserves to meet the TNE requirements. The desired level is between 100 percent to 110 percent the requirement and CalOptima Health's total reserve level as of June 30, 2024, stood at 103 percent of the minimum required TNE.

CalOptima Health is also required to maintain a $300,000 restricted deposit as a part of the Act.

2025 and 2024 Results of Operations

CalOptima Health's fiscal year 2025 operating and non-operating income resulted in a $355.5 million increase in net position, $419.6 million less compared to a $775.1 million increase in fiscal year 2024. The following table reflects the changes in revenues and expenses for 2025 compared to 2024:

Table 2a: Revenues, Expenses, and Changes in Net Position for Fiscal Years Ended June 30, (Dollars in Thousands)

Results of Operations	2025	2024	Change from 2024 Amount	Change from 2024 Percentage
PREMIUM REVENUES	$ 5,033,535	$ 5,372,964	$ (339,429)	-6.3%
Total operating revenues	5,033,535	5,372,964	(339,429)	-6.3%
MEDICAL EXPENSES	4,621,433	4,403,235	218,198	5.0%
ADMINISTRATIVE EXPENSES	259,859	229,511	30,348	13.2%
Total operating expenses	4,881,292	4,632,746	248,546	5.4%
OPERATING INCOME	152,243	740,218	(587,975)	-79.4%
NON-OPERATING REVENUES AND EXPENSES	203,258	34,858	168,400	483.1%
Increase in net position	355,501	775,076	(419,575)	-54.1%
NET POSITION, beginning of year	2,445,082	1,670,006	775,076	46.4%
NET POSITION, end of year	$ 2,800,583	$ 2,445,082	$ 355,501	14.5%

2025 and 2024 Operating Revenues

The decrease in operating revenues of $339.4 million in fiscal year 2025 is attributable to a decrease in enrollment of 4.2 percent, a decrease in revenue from State Funded Incentive and Supplemental programs offset by an increase in directed payments of $249.5 million and an increase in capitated premium rates of $194.0 million. The decrease is also driven by fiscal year 2024's release in estimated payables to the State for $646.8 million due to contract updates impacting the COVID-19 risk corridor settlement requirement.

2025 and 2024 Medical Expenses

Provider capitation, comprised of capitation payments to CalOptima Health's contracted health networks, increased by 5.2 percent from fiscal year 2024 to fiscal year 2025. Capitated member enrollment accounted for approximately 67.3 percent of CalOptima Health's enrollment, averaging 612,173 members, during fiscal year 2025 and approximately 70.7 percent of CalOptima Health's enrollment, averaging 672,026 members, during fiscal year 2024. Included in the capitated environment were 93,055 or 15.6 percent and 187,207 or 28.5 percent members in a shared risk network for fiscal years 2025 and 2024, respectively. The decrease is attributable to changes in several health network risk models. Shared risk networks receive capitation for professional services and are claims-based for hospital services.

Provider capitation expenses for the Medi-Cal program totaled $1,370.8 million in fiscal year 2025, compared to $1,285.7 million in fiscal year 2024. The increase reflects rate increases with the contracted health networks.

Claims expenses to providers and facilities, including long-term care (LTC) services for the Medi-Cal program increased by 4.2 percent from fiscal year 2024 to fiscal year 2025 due to increased utilization.

In addition to the items mentioned above, total quality assurance fee (QAF) payments received and passed through to hospitals decreased from $290.7 million to $106.6 million from fiscal year 2024 to fiscal year 2025 due to the State's timing for QAF payments. These receipts and payments are not included in the statements of revenues, expenses, and changes in net position as these are considered pass through payments.

2025 and 2024 Administrative Expenses

Total administrative expenses were $259.9 million in 2025 compared to $229.5 million in 2024. Overall administrative expenses increased by 13.2 percent or $30.3 million, across all categories. In fiscal years 2025 and 2024, CalOptima Health's administrative expenses were 5.2 percent and 4.3 percent of total operating revenues, respectively.

2025 and 2024 Non-Operating Revenues and Expenses

Non-operating revenue and expenses increased from $168.4 million of non-operating income of $34.9 million in fiscal year 2024 to non-operating income of $203.3 million in fiscal year 2025. The increase is driven primarily by the change in Community Reinvestment expenses $125.3 million due to updated guidance released by the State in February 2025 and an increase of $19.7 million from net investment income and a decrease in Grant expenses of $23.7 million in fiscal year 2025.

As of June 30, 2025, in accordance with State contracts, the balance of the Community Reinvestment was estimated at $38.2 million, and the balance of the Quality Achievement was estimated at $49.9 million.

2024 and 2023 Results of Operations

CalOptima Health's fiscal year 2024 operating and non-operating income resulted in a $775.1 million increase in net position, $524.6 million more compared to a $250.5 million increase in fiscal year 2023. The following table reflects the changes in revenues and expenses for 2024 compared to 2023:

Table 2b: Revenues, Expenses, and Changes in Net Position for Fiscal Years Ended June 30, (Dollars in Thousands)

Results of Operations	2024	2023	Change from 2023 Amount	Change from 2023 Percentage
PREMIUM REVENUES	$ 5,372,964	$ 4,239,833	$ 1,133,131	26.7%
Total operating revenues	5,372,964	4,239,833	1,133,131	26.7%
MEDICAL EXPENSES	4,403,235	3,862,196	541,039	14.0%
ADMINISTRATIVE EXPENSES	229,511	192,339	37,172	19.3%
Total operating expenses	4,632,746	4,054,535	578,211	14.3%
OPERATING INCOME	740,218	185,298	554,920	299.5%
NONOPERATING REVENUES AND EXPENSES	34,858	65,198	(30,340)	-46.5%
Increase in net position	775,076	250,496	524,580	209.4%
NET POSITION, beginning of year	1,670,006	1,419,510	250,496	17.6%
NET POSITION, end of year	$ 2,445,082	$ 1,670,006	$ 775,076	46.4%

2024 and 2023 Operating Revenues

The increase in operating revenues of $1,133.1 million in fiscal year 2024 was attributable to increased premium capitation rates, newly eligible UIS members, and $93.0 million in revenue from various State programs such as Housing and Homelessness Incentive Program (HHIP), Student Behavioral Health Incentive Program (SBHIP), and California Advancing and Innovating Medi-Cal (CalAIM) Incentive Payment Program (IPP). The increase in operating revenue was also driven by a $646.8 million release in estimated payables to the State due to contract updates impacting the COVID-19 risk corridor settlement requirement and offset by a net increase in payables to the State of $47.3 million for the Proposition 56, UIS, and ECM risk corridors.

2024 and 2023 Medical Expenses

Provider capitation, comprised of capitation payments to CalOptima Health's contracted health networks, increased by 11.3 percent from fiscal year 2023 to fiscal year 2024. Capitated member enrollment accounted for approximately 70.7 percent of CalOptima Health's enrollment, averaging 672,026 members, during fiscal year 2024 and approximately 73.4 percent of CalOptima Health's enrollment, averaging 690,882 members, during fiscal year 2023. Included in the capitated environment were 187,207 or 28.5 percent and 232,786 or 33.7 percent of members in a shared risk network for fiscal years 2024 and 2023, respectively. Shared risk networks receive capitation for professional services and are claims-based for hospital services.

Provider capitation expenses totaled $1,285.7 million in fiscal year 2024, compared to $1,155.2 million in fiscal year 2023. The increase reflects rate increases with the contracted health networks.

Claims expenses to providers and facilities, including LTC services, increased by 15.4 percent from fiscal year 2023 to fiscal year 2024 due to increased utilization.

In addition to the items mentioned above, total QAF payments received and passed through to hospitals increased from $0.0 million to $290.7 from fiscal year 2023 to fiscal year 2024 due to the State's timing for QAF payments. These receipts and payments are not included in the statements of revenues, expenses, and changes in net position as these are considered pass through expenses.

2024 and 2023 Administrative Expenses

Total administrative expenses were $229.5 million in 2024 compared to $192.3 million in 2023. Overall administrative expenses increased by 19.3 percent or $37.2 million, primarily due to an increase in filled positions, cost-of-living and other salary adjustments. In fiscal years 2024 and 2023, CalOptima Health's administrative expenses were 4.3 percent and 4.5 percent of total operating revenues, respectively.

2024 and 2023 Non-Operating Revenues and Expenses

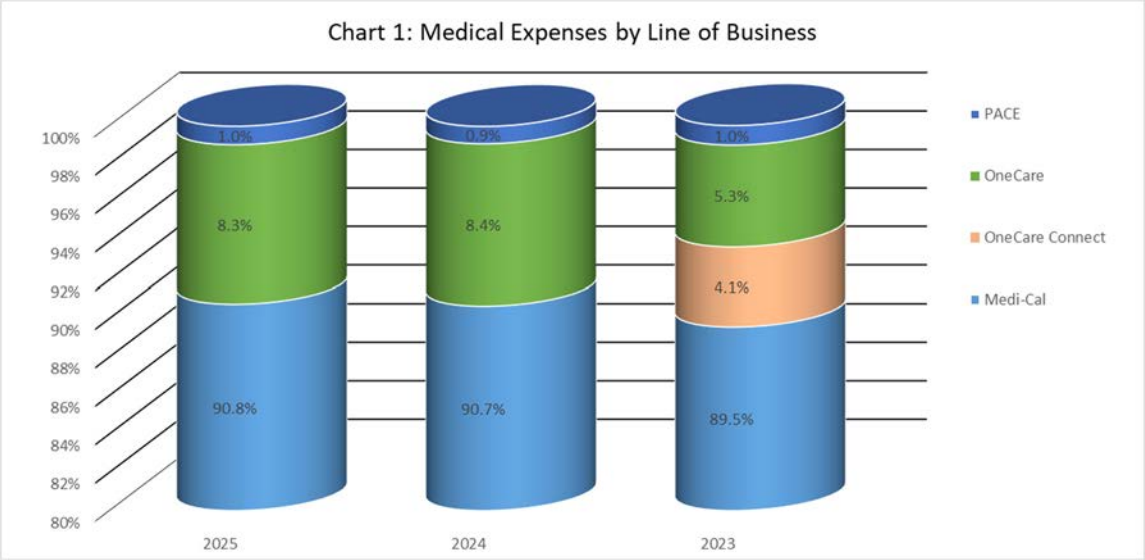
Non-operating revenue and expenses decreased by $30.3 million from income of $65.2 million in fiscal year 2023 to income of $34.9 million in fiscal year 2024. The decrease is driven primarily by favorable investment performance in fiscal year 2024 of $175.9 million, an increase of $85.5 million from net investment income of $90.4 million in fiscal year 2024. The amount is offset by an increase in grant expenses of $6.5 million, from $25.5 million in fiscal year 2023 to $32.0 million in fiscal year 2024 and also a new estimate for Community Reinvestment and Quality Achievement.

As of June 30, 2024, in accordance with State contracts, the balance of the Community Reinvestment was estimated at $51.4 million, and the balance of the Quality Achievement was estimated at $55.2 million.

The Board and management have been accelerating efforts to improve access and quality of health care for the most vulnerable residents in Orange County. Those efforts included increasing the number of community investment grants released in the recent fiscal years.

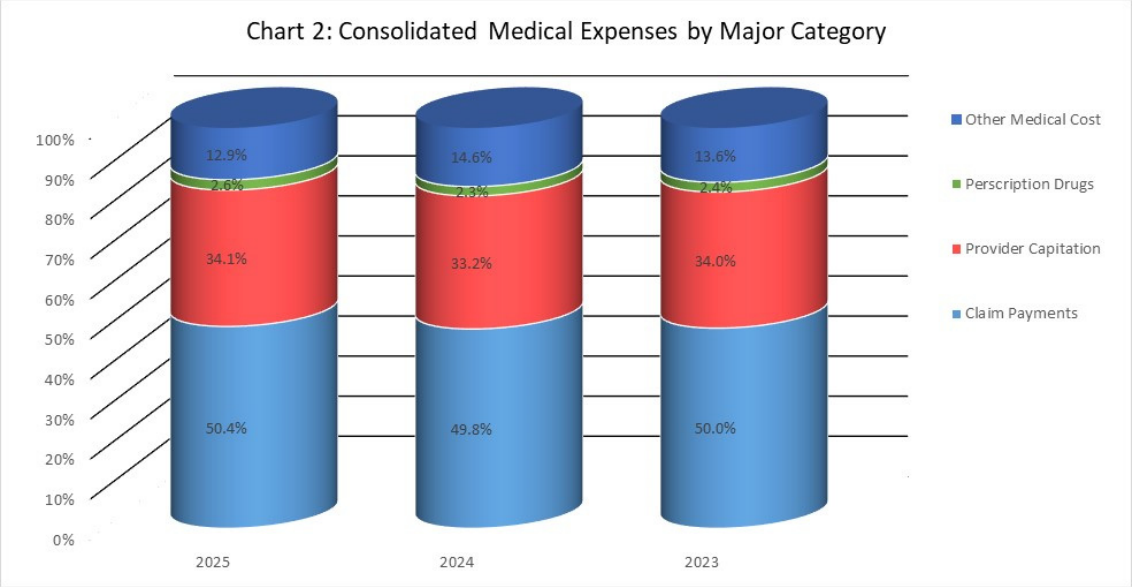
2025, 2024, and 2023 Medical Expenses by Line of Business

Below is a comparison chart of total medical expenses by line of business and their respective percentages of the overall medical expenditures by fiscal year.



2025, 2024, and 2023 Medical Expenses by Major Category

Below is a comparison chart of medical expenses by major category and their respective percentages of the overall medical expenditures by fiscal year.

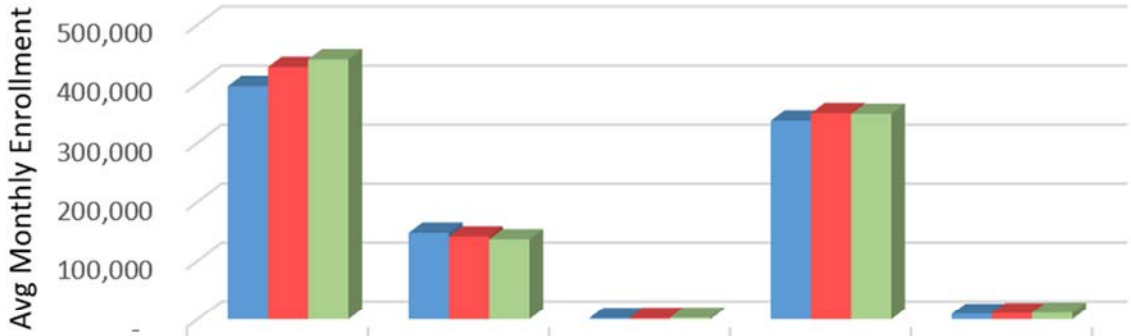


2025, 2024, and 2023 Enrollment

Medi-Cal

During fiscal year 2025, CalOptima Health served an average of 892,630 Medi-Cal members per month compared to an average of 932,770 members per month in 2024 and 940,893 members per month in 2023. The decrease is attributed to the transition of Kaiser members out to its own Medi-Cal contract beginning January 1, 2024. The chart below displays a comparative view of average monthly membership by Medi-Cal aid category during 2025, 2024, and 2023.

Chart 3: Medi-Cal Membership by Aid Category
(Shown as Average Member Months)



	TANF	Disabled/ Aged	LTC	MCE	WCM
2025	395,801	147,567	2,506	337,339	9,417
2024	428,244	141,185	2,751	350,000	10,589
2023	441,298	136,395	3,019	348,826	11,355

Significant aid categories are defined as follows:

Temporary Assistance to Needy Families (TANF) includes families, children, and poverty-level members who qualify for the TANF federal welfare program, which provides cash aid and job-search assistance to poor families. TANF also includes members who migrated from the CalOptima Health, Health Net, and Kaiser Healthy Family programs.

Disabled and Aged includes individuals who have met the criteria for disability set by the Social Security Administration, and individuals aged 65 and older who receive supplemental security income (SSI) checks, are medically needy, or have an income of 100 percent or less of the federal poverty level.

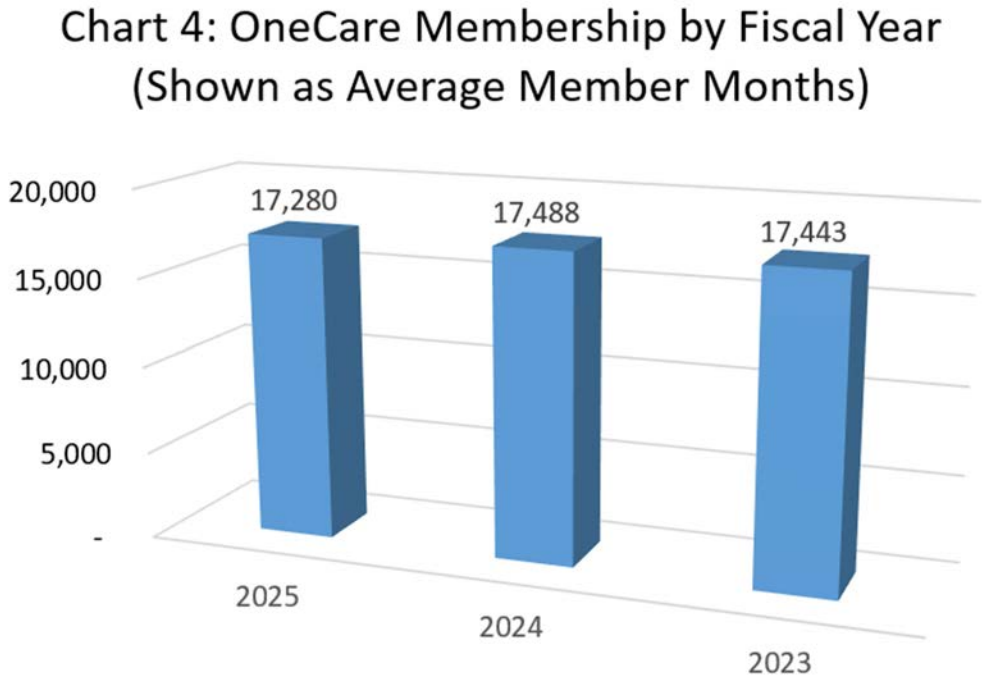
LTC includes frail elderly adults, nonelderly adults with disabilities, and children with developmental disabilities and other disabling conditions that require LTC services.

Medi-Cal Expansion (MCE) includes adults without children, ages 19 to 64, who qualify based upon income, as required by the Patient Protection and Affordable Care Act (ACA).

CalOptima Health's Whole Child Model (WCM) program includes children who are California Children's Services (CCS) eligible. These members are receiving their CCS services and non-CCS services under the WCM program.

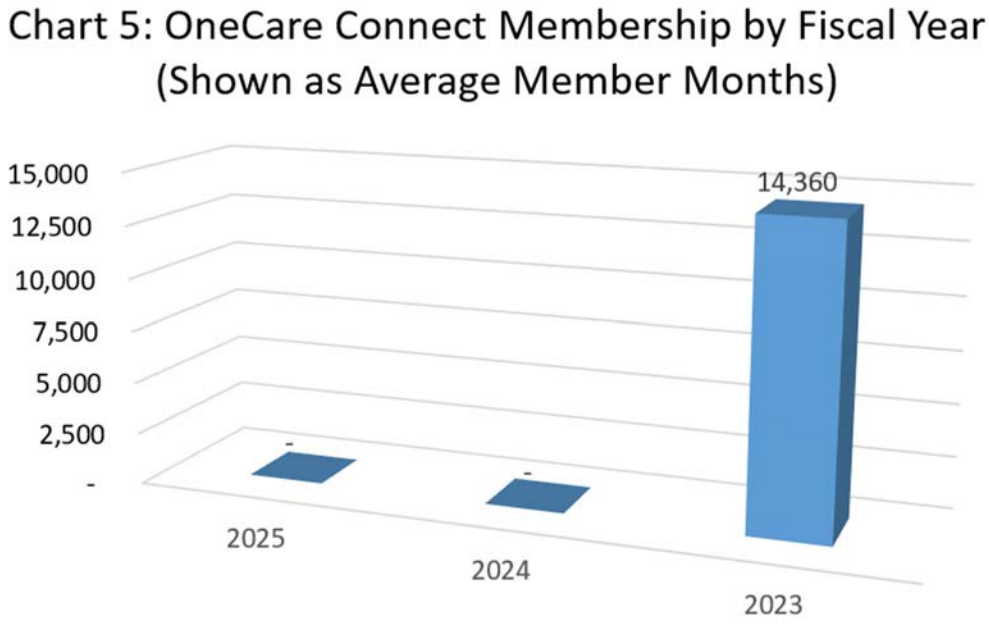
OneCare

OneCare was introduced in October 2005 as a Medicare Advantage Special Needs Plan. It provides a full range of health care services to members who are eligible for both the Medicare and Medi-Cal programs (i.e., dual eligible). The average member months were 17,280, 17,488, and 17,443 for the years ended June 30, 2025, 2024, and 2023, respectively. The average member month for fiscal year 2023 was calculated using enrollment from January 2023 through June 2023 due to the transition of OneCare Connect members to OneCare beginning January 1, 2023. The chart below displays the average member months for the past three years.



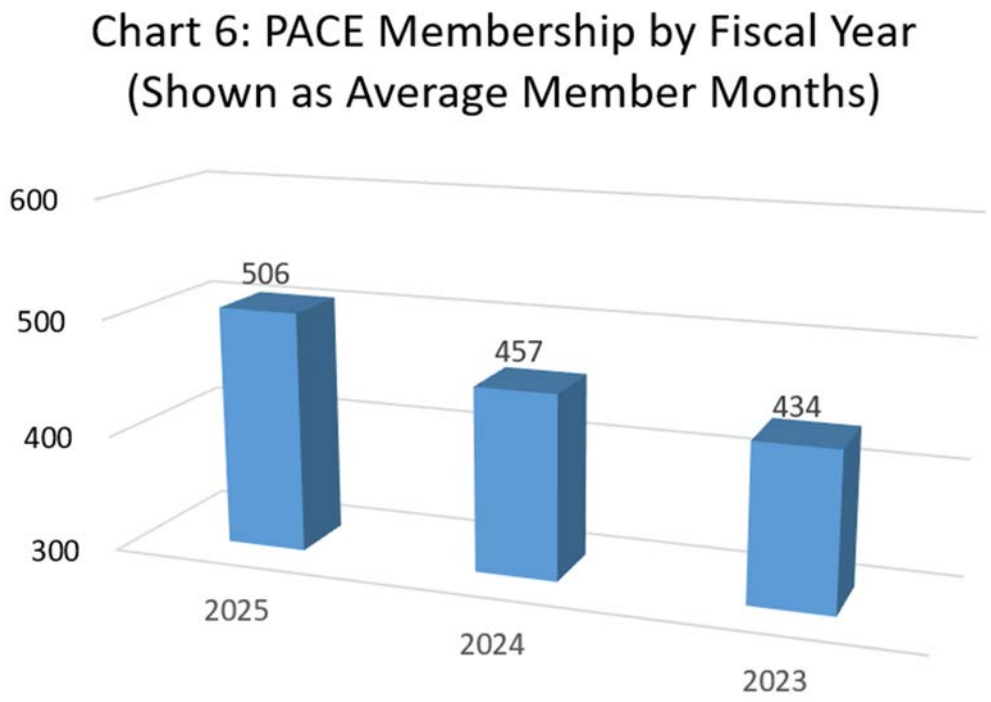
OneCare Connect

CalOptima Health launched the OneCare Connect program to serve dual eligible members in Orange County in July 2015. This program combines members' Medicare and Medi-Cal coverage and adds other benefits and supports. The average member months were 0, 0, and 14,360 for the fiscal years ended June 30, 2025, 2024, and 2023, respectively. For fiscal year 2023, average member months were calculated with enrollment from July 2022 through December 2022 due to the transition of OneCare Connect members to OneCare on January 1, 2023. The chart below displays the average member months for the past three years.



PACE

PACE began operations in October 2013. It is a community-based Medicare and Medi-Cal program that provides coordinated and integrated health care services to frail elders to help them to continue living independently in the community. The average member months were 506, 457, and 434 for the fiscal years ended June 30, 2025, 2024, and 2023, respectively. The chart below displays the average member months for the past three years.



Economic Factors and the State's Fiscal Year 2025-26 Budget

On June 27, 2025, Governor Gavin Newsom signed the fiscal year (FY) 2025-26 state budget bill. The budget addressed a $11.8 billion General Fund deficit for FY 2025-26 that resulted from a combination of downgraded economic and revenue forecasts, and cost and caseload growth in core state programs. The budget shortfall was closed using spending reductions, revenue, borrowing and funding shifts.

General Fund spending in the budget package was $228.4 billion, a decrease of $5.2 billion or 2.2 percent from FY 2024-25. The budget included $44.9 billion in General Fund spending for the Medi-Cal program, covering approximately 14.9 million beneficiaries in FY 2025-26.

Some major Medi-Cal initiatives included are:

- Changes to full-scope Medi-Cal coverage for undocumented adults, including a freeze on enrollment for adults 19 and older beginning January 1, 2026, elimination of dental benefits for adults 19 and older, and implementation of $30 monthly premiums for adults 19-59 beginning July 1, 2027;
- Use of Proposition 35 revenue to support increases in Medi-Cal base capitation rates;
- Continued investment in California Advancing and Innovating Medi-Cal (CalAIM);
- Revision of PACE payment methodology to set capitation rates at the midpoint of the rate range; effective January 1, 2027.
- Elimination of Prospective Payment System reimbursement to Federally Qualified Health Centers and Rural Health Centers for state-only services;
- Elimination of the Skilled Nursing Facility Workforce and Quality Incentive Program;
- Removal of the prohibition on prior authorization for hospice services; and
- Increased efforts related to prescription drugs utilization management and maximizing drug rebates.

The budget projected $215.7 billion in General Fund revenues and transfers in FY 2025-26, a decrease of $11.0 billion or 4.9 percent compared to last fiscal year. The three largest General Fund taxes (i.e., personal income tax, sales and use tax, and corporation tax) were projected to decrease by 2.6 percent from FY 2024-25. The State is projected to end FY 2025-26 with $15.7 billion in total reserves.

DHCS routine annual audit (2024) – In January 2024, the California Department of Health Care Services (DHCS) formally engaged CalOptima Health for its annual medical program audit. The audit covered the provision of Medi-Cal services for the period of February 1, 2023, through February 29, 2024, and assessed CalOptima Health's compliance with its Medi-Cal contract and regulations. In August 2024, CalOptima Health received its audit findings report. The audit report identified ten findings that required corrective actions. CalOptima Health received confirmation of Corrective Action Plan (CAP) acceptance and audit closure on March 26, 2025. This audit is considered closed with no further action required.

DHCS State Supported Services (SSS) audit (2024) – At the time of engagement for its annual routine audit in January 2024, DHCS simultaneously engaged CalOptima Health in an SSS audit related to abortion services. DHCS conducted this audit in conjunction with the DHCS routine annual audit for the period of February 1, 2023, through February 29, 2024, and assessed CalOptima Health's compliance with its Medi-Cal contract and regulations related to SSS. In August 2024, CalOptima Health received its audit findings report which confirmed no findings. This audit is considered closed with no further action required.

DHCS routine annual audit (2025) – In October 2024, DHCS formally engaged CalOptima Health for its annual medical program audit. The audit covered the provision of Medi-Cal services for the period of February 1, 2024, through January 31, 2025, and assessed CalOptima Health's compliance with its Medi-Cal contract and regulations. In May 2025, CalOptima Health received its audit findings report and request for corrective action. The audit report identified four findings that required corrective actions. As of this writing, CalOptima Health has submitted all required deliverables and awaits DHCS's assessment.

DHCS SSS audit (2025) – At the time of engagement for its annual routine audit in October 2024, DHCS simultaneously engaged CalOptima Health in an SSS audit related to abortion services. DHCS conducted this audit in conjunction with the DHCS routine annual audit for the period of February 1, 2024, through January 31, 2025, and assessed CalOptima Health's compliance with its Medi-Cal contract and regulations related to SSS. In May 2025, CalOptima Health received its audit findings report which confirmed no findings. This audit is considered closed with no further action required.

DHCS focused audit – In December 2022, the DHCS formally engaged CalOptima Health in a focused audit for services related to transportation and behavioral health. The audit covered the provision of services for the period of February 1, 2022, through January 31, 2023. DHCS conducted this focused audit on all managed care plans; the review was not unique to CalOptima Health. In August 2024, CalOptima Health received its audit findings report. The audit report identified two findings that required corrective actions. CalOptima Health received confirmation of CAP acceptance and closure on January 9, 2025. This audit is considered closed with no further action required.

California State Auditor (CSA) audit– In May 2023, the CSA released Report 2022-112. The audit covered certain aspects of CalOptima Health's budget, services, programs, and organizational changes. In accordance with the terms of the audit, CalOptima Health was required to submit 60-day, six-month and one-year status updates to CSA on the implementation of the report's seven recommendations. Following its assessment of the one-year status update, in October 2024, CSA confirmed that CalOptima Health had fully implemented all recommendations without any further actions or responses required.

DMHC routine examination – The California Department of Managed Care (DMHC) conducted a routine financial examination of CalOptima Health's fiscal and administrative affairs across all lines of business pursuant to Section 1382 of the Act. The audit began on January 13, 2025, and was conducted virtually. On February 25, 2025, DMHC issued the Preliminary Findings Report and noted one deficiency related to CalOptima Health's failure to timely file four key personnel/management changes with DMHC. A CAP was issued to the impacted operational area and submitted to DMHC on April 3, 2025. On April 17, 2025, DMHC issued the Final Audit Report and determined CalOptima Health sufficiently corrected the deficiency, and the audit was closed.

Payment Year (PY) 2012 Risk Adjustment Data Validation (RADV) audit – In September 2015, the Centers for Medicare & Medicaid Services (CMS) formally engaged CalOptima Health for its PY 2012 RADV Audit. On May 13, 2025, CMS issued the RADV Audit Report, Payment Error Calculation Methodology, and summary of findings for the audit. The audit results identified a total overpayment amount of $54,735. CalOptima Health had 60 days to file an appeal if it did not agree with the RADV audit results. After review, CalOptima Health determined it will not file an appeal as the overpayment amount is in alignment with what was reviewed at the time the audit was originally conducted. CalOptima Health is currently awaiting additional communication from CMS regarding the collection of the overpayment amount.

PY 2019 RADV audit – On June 12, 2025, CMS notified CalOptima Health that its OneCare plan was selected for the PY 2019 RADV Audit. CMS will conduct medical record reviews for a sample of OneCare members to validate the accuracy of a subset of PY 2019 risk adjustment data and payments associated with encounters with dates of service from January 1, 2018, through December 31, 2018. CalOptima Health is required to submit medical records for the validation of the risk adjustment data. The medical record submission window opened on June 20, 2025, and will close on September 15, 2025. CMS expects to begin issuing PY 2019 audit findings by early 2026.

CMS 1/3 financial audit – On September 21, 2023, CMS notified CalOptima Health that its OneCare plan was selected for the Calendar Year 2022 CMS 1/3 Financial Audit. CMS' contractor, acting in the capacity of CMS agents, conducted the audit by requesting records and supporting documentation for, but not limited to, claims data, solvency, enrollment, base year entries on the bids, medical and/or drug expenses, related-party transactions, general administrative expenses, and Direct and Indirect Remuneration (DIR).

The audit has been completed, and the Agree/Disagree Letter was shared with CalOptima Health, which included three findings and one observation. CalOptima Health provided a response to the auditor on June 4, 2024. On August 19, 2024, the auditor shared that CMS reviewed the Draft Report and downgraded the previous Bid Reconciliation finding to an observation. An updated Agree/Disagree Letter, Management Representation Letter and Subsequent Inquiry Events were submitted to the auditor. On September 12, 2024, CMS issued the Final Audit Report, which included two findings and two observations. A CAP was issued to the impacted operational areas and submitted to CMS on December 10, 2024. On January 21, 2025, CMS issued notice of audit closure as CalOptima Health demonstrated it executed appropriate corrective actions for all the findings identified in the audit report.

Requests for information – This financial report has been prepared in the spirit of full disclosure to provide the reader with an overview of CalOptima Health's operations. If the reader has questions or would like additional information, please direct the requests to CalOptima Health, 505 City Parkway West, Orange, California 92868, or call (714) 347-3237.

Report of Independent Auditors

The Board of Directors
Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health (the "Organization"), which comprise the statements of net position as of June 30, 2025 and 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

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

Baker Tilly US, LLP

Irvine, California
September 19, 2025

Financial Statements

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

Statements of Net Position

June 30, 2025 and 2024

	2025	2024
CURRENT ASSETS		
Cash and cash equivalents	$ 475,203,956	$ 527,999,319
Investments	1,340,926,602	1,777,895,941
Premiums due from the State of California and CMS	653,537,573	478,436,041
Prepaid expenses and other	106,757,225	87,419,561
Total current assets	2,576,425,356	2,871,750,862
BOARD-DESIGNATED ASSETS AND RESTRICTED CASH		
Cash and cash equivalents	6,677,329	22,817,912
Investments	1,710,130,179	1,114,945,527
Restricted deposit	300,000	300,000
Total board-designated assets and restricted cash	1,717,107,508	1,138,063,439
CAPITAL ASSETS, NET	79,772,146	77,270,145
INTANGIBLE RIGHT-TO-USE SUBSCRIPTION ASSET, net	18,850,560	19,290,669
Total assets	4,392,155,570	4,106,375,115
DEFERRED OUTFLOWS OF RESOURCES		
Net pension	27,437,072	74,549,007
Other postemployment benefit	1,189,000	1,350,000
Total deferred outflows of resources	28,626,072	75,899,007
Total assets and deferred outflows of resources	$ 4,420,781,642	$ 4,182,274,122

See accompanying notes.

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

Statements of Net Position

June 30, 2025 and 2024

	2025	2024
CURRENT LIABILITIES		
Medical claims liability and capitation payable		
Medical claims liability	$ 382,532,371	$ 369,433,596
Provider capitation and withholds	153,993,364	176,233,694
Accrued reinsurance costs to providers	15,792,031	7,511,531
Due to the State of California and CMS	865,012,135	937,276,525
Unearned revenue	7,905,444	6,777,509
	1,425,235,345	1,497,232,855
Subscription liability	6,641,757	7,134,744
Accounts payable and other	31,561,522	17,667,439
Accrued payroll and employee benefits and other	29,845,787	25,886,668
Total current liabilities	1,493,284,411	1,547,921,706
COMMUNITY REINVESTMENT	88,098,111	106,676,651
POSTEMPLOYMENT HEALTH CARE PLAN	17,249,000	17,370,000
SUBSCRIPTION LIABILITY, net of current portion	11,170,484	10,595,755
NET PENSION LIABILITY	5,840,992	45,981,359
OTHER LONG-TERM LIABILITIES	245,394	-
Total liabilities	1,615,888,392	1,728,545,471
DEFERRED INFLOWS OF RESOURCES		
Net pension	1,321,519	2,248,445
Other postemployment benefit	2,988,000	6,398,000
Total deferred inflows of resources	4,309,519	8,646,445
NET POSITION		
Net investment in capital assets	80,810,465	78,830,315
Restricted by legislative authority	129,341,855	127,852,909
Unrestricted	2,590,431,411	2,238,398,982
Total net position	2,800,583,731	2,445,082,206
Total liabilities, deferred inflows of resources, and net position	$ 4,420,781,642	$ 4,182,274,122

See accompanying notes.

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2025 and 2024

	2025	2024
REVENUES		
Premium revenues	$ 5,033,535,326	$ 5,372,963,895
Total operating revenues	5,033,535,326	5,372,963,895
OPERATING EXPENSES		
Medical expenses		
Claims expense to providers and facilities	2,181,804,161	2,094,723,338
Provider capitation	1,506,905,421	1,477,805,330
Other medical	517,084,357	421,684,123
PACE	43,370,651	39,737,377
OneCare	372,267,309	369,285,675
Total medical expenses	4,621,431,899	4,403,235,843
Administrative expenses		
Salaries, wages, and employee benefits	155,054,752	149,096,246
Supplies, occupancy, insurance, and other	46,631,923	39,389,249
Purchased services	29,268,757	22,407,022
Depreciation and amortization	9,606,171	8,008,630
Professional fees	19,297,822	10,609,407
Total administrative expenses	259,859,425	229,510,554
Total operating expenses	4,881,291,324	4,632,746,397
OPERATING INCOME	152,244,002	740,217,498
NON-OPERATING REVENUES (EXPENSES)		
Net investment income and other	194,295,685	174,598,247
Grant expense	(9,627,088)	(33,282,237)
Community reinvestment	18,578,540	(106,676,651)
Rental income, net of related expenses	10,386	219,072
Total non-operating revenues	203,257,523	34,858,431
Increase in net position	355,501,525	775,075,929
NET POSITION, beginning of year	2,445,082,206	1,670,006,277
NET POSITION, end of year	$ 2,800,583,731	$ 2,445,082,206

See accompanying notes.

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health
Statements of Cash Flows
Years Ended June 30, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Capitation payments received and other	$ 4,787,297,339	$ 4,870,608,107
Payments to providers and facilities	(4,622,047,560)	(4,313,806,893)
Payments to vendors	(91,530,982)	(56,642,960)
Payments to employees	(148,420,991)	(195,089,484)
Net cash (used in) provided by operating activities	(74,702,194)	305,068,770
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on subscription lease obligations	(9,431,517)	(8,592,862)
Purchases of capital assets	(11,265,905)	(19,216,010)
Net cash used in capital and related financing activities	(20,697,422)	(27,808,872)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Investment income received	202,322,612	201,775,923
Purchases of securities	23,161,166,531	(21,016,264,492)
Sales of securities	(23,311,268,188)	20,326,715,194
Payments of grants to providers	(9,627,088)	(33,282,237)
Collections related to rental income	10,386	219,072
Net cash provided by (used in) investing activities	42,604,253	(520,836,540)
Net change in cash and cash equivalents	(52,795,363)	(243,576,642)
CASH AND CASH EQUIVALENTS, beginning of year	527,999,319	771,575,961
CASH AND CASH EQUIVALENTS, end of year	$ 475,203,956	$ 527,999,319
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 152,244,002	$ 740,217,498
ADJUSTMENT TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	17,742,390	15,680,860
Changes in assets and liabilities		
Premiums due from the State of California and CMS	(175,101,532)	(81,060,308)
Prepaid expenses and other	(19,337,664)	4,189,106
Medical claims liability	13,098,775	35,439,840
Provider capitation and withholds	(22,240,330)	50,789,672
Accrued reinsurance costs to providers	8,280,500	3,199,438
Due to the State of California and CMS	(72,264,390)	(366,186,657)
Unearned revenue	1,127,935	(55,108,823)
Accounts payable and other	14,868,965	3,901,382
Long term liabilities	245,394	-
Accrued payroll and employee benefits and other	3,959,119	2,554,276
Postemployment health care plan	(3,370,000)	(2,749,000)
Net pension liability	6,044,642	(45,798,514)
Net cash (used in) provided by operating activities	$ (74,702,194)	$ 305,068,770
NONCASH CAPITAL FINANCING ACTIVITIES		
Lease right-of-use assets acquired via lease obligations	$ 8,538,377	$ 8,818,155
SUPPLEMENTAL SCHEDULE OF NONCASH OPERATING AND INVESTING ACTIVITIES		
Change in unrealized depreciation on investments	$ 12,997,504	$ (5,165,292)

See accompanying notes.

Note 1 – Organization

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health, is a County-Organized Health System (COHS) serving primarily Medi-Cal beneficiaries in Orange County, California. Effective August 4, 2022, Orange County Health Authority changed its dba name to CalOptima Health (CalOptima Health or the Organization). Pursuant to the California Welfare and Institutions Code, CalOptima Health was formed by the Orange County Board of Supervisors as a public/private partnership through the adoption of Ordinance No. 3896 in August 1992. The Organization began operations in October 1995.

As a COHS, CalOptima Health maintains an exclusive contract with the State of California (the State) Department of Health Care Services (DHCS) to arrange for the provision of health care services to Orange County's Medi-Cal beneficiaries. Orange County had approximately 886,000 and 901,300 Medi-Cal beneficiaries for the years ended June 30, 2025 and 2024, respectively. CalOptima Health also offers OneCare, a Medicare Advantage Special Needs Plan, via a contract with the Centers for Medicare & Medicaid Services (CMS). OneCare served approximately 17,700 and 17,300 members eligible for both Medicare and Medi-Cal for the years ended June 30, 2025 and 2024, respectively.

CalOptima Health also contracts with the California Department of Aging to provide case management of social and health care services to approximately 500 Medi-Cal eligible seniors under the State's Multipurpose Senior Services Program (MSSP). Effective January 1, 2022, MSSP transitioned from a managed care plan benefit to a carved-out waiver benefit.

The Program of All-Inclusive Care for the Elderly (PACE) provides services to members 55 years of age or older who reside in the PACE service area and meet California nursing facility level-of-care requirements. The program receives Medicare and Medi-Cal funding and serves approximately 500 members.

CalOptima Health, in turn, subcontracts the delivery of health care services through health maintenance organizations and provider-sponsored organizations, known as Physician/Hospital Consortia and Shared Risk Groups. Additionally, CalOptima Health has direct contracts with hospitals and providers for its fee-for-service network.

CalOptima Health is Knox-Keene-licensed for purposes of its Medicare programs and is subject to certain provisions of the Knox-Keene Health Care Service Plan Act of 1975 (the Act) to the extent incorporated by reference into CalOptima Health's contract with DHCS. As such, CalOptima Health is subject to the regulatory requirements of the Department of Managed Health Care (DMHC) under Section 1300, Title 28 of the California Administrative Code of Regulations, including minimum requirements of TNE, which CalOptima Health exceeded as of June 30, 2025 and 2024.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – CalOptima Health is a COHS plan governed by a 10-member Board of Directors appointed by the Orange County Board of Supervisors. Effective for the year ended June 30, 2014, CalOptima Health began reporting as a discrete component unit of the County of Orange, California. The County made this determination based on the County Board of Supervisors' role in appointing all members of the Board of Directors.

Basis of accounting – CalOptima Health uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The accompanying financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board (GASB).

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents – The Organization considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Investments – Investments are stated at fair value in accordance with GASB Codification Section 150. The fair value of investments is estimated based on quoted market prices, when available. For debt securities not actively traded, fair values are estimated using values obtained from external pricing services or are estimated by discounting the expected future cash flows using current market rates applicable to the coupon rate, credit, and maturity of the investments.

All investments with an original maturity of one year or less when purchased are recorded as current investments, unless designated or restricted.

Board-designated assets and restricted cash – Board-designated assets based on policy updates approved by the Board in April 2025 include amounts designated by the Board of Directors for the establishment of certain reserve funds for contingencies at a desired level between 2.5 and 4.0 months of consolidated capitation revenue (see Note 3). The Board of Directors also established a separate reserve to meet the statutory requirement for minimum TNE. Restricted cash represents a $300,000 restricted deposit required by CalOptima Health as part of the Act (see Note 9).

Capital assets – Capital assets are stated at cost at the date of acquisition. The costs of normal maintenance, repairs, and minor replacements are charged to expense when incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Long-lived assets are periodically reviewed for impairment. The following estimated useful lives are used:

	Years
Furniture	5 years
Vehicles	5 years
Computers and software	3 years
Leasehold improvements	15 years or life of lease, whichever is less
Building	40 years
Building components	10 to 30 years
Land improvements	8 to 25 years
Tenant improvements	7 years or life of lease, whichever is less

Fair value of financial instruments – The financial statements include financial instruments for which the fair market value may differ from amounts reflected on a historical basis. Financial instruments of the Organization consist of cash deposits, investments, premiums receivable, accounts payable, and certain accrued liabilities. The Organization's other financial instruments, except for investments, generally approximate fair market value based on the relatively short period of time between origination of the instruments and their expected realization.

Medical claims liability and expenses – CalOptima Health establishes a claims liability based on estimates of the ultimate cost of claims in process and a provision for incurred-but-not-yet-reported (IBNR) claims, which is actuarially determined based on historical claim payment experience and other statistics. Such estimates are continually monitored and analyzed with any adjustments made as necessary in the period the adjustment is determined. CalOptima Health retains an outside actuary to perform an annual review of the actuarial projections. Amounts for claims payment incurred related to prior years vary from previously estimated liabilities as the claims ultimately are settled.

Provider capitation and withholds – CalOptima Health has provider services agreements with several health networks in Orange County, whereby the health networks provide care directly to covered members or through subcontracts with other health care providers. Payment for the services provided by the health networks is on a fully capitated basis. The capitation amount is based on contractually agreed-upon terms with each health network. CalOptima Health withholds amounts from providers at an agreed-upon percentage of capitation payments made to ensure the financial solvency of each contract. CalOptima Health also records a liability related to quality incentive payments and risk-share provisions. The quality incentive liability is estimated based on member months and rates agreed upon by the Board of Directors. For the risk-share provision liability, management allocates surpluses or deficits, multiplied by a contractual rate, with the shared-risk groups. Estimated amounts due to health networks pertaining to risk-share provisions were approximately $17,252,000 and $27,304,000 as of June 30, 2025 and 2024, respectively, and are included in provider capitation and withholds on the statements of net position. During the years ended June 30, 2025 and 2024, CalOptima Health incurred approximately $1,537,886,000 and $1,463,590,000, respectively, of capitation expense relating to health care services provided by health networks. Capitation expense is included in the provider capitation and OneCare line items in the statements of revenues, expenses, and changes in net position. Estimated amounts due to health networks as of June 30, 2025 and 2024, related to the capitation withhold arrangements, quality incentive payments, and risk-share provisions were approximately $153,993,000 and $176,234,000, respectively.

Premium deficiency reserves – CalOptima Health performs periodic analyses of its expected future health care costs and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency reserve is accrued. Investment income is included in the calculation to estimate premium deficiency reserves. CalOptima Health's management determined that no premium deficiency reserves were necessary as of June 30, 2025 and 2024.

Community reinvestment – Under its contract with DHCS, CalOptima Health is required to commit a percentage of net position toward investments into the community and an additional percentage if CalOptima Health does not meet specified quality measures established by the State, referred to as Community Reinvestment and Quality Achievement, respectively. As of June 30, 2024, in accordance with State contracts, the balance of the community reinvestment and quality achievement accrual was estimated at approximately $51,439,000 and $55,238,000, respectively. In February 2025, the Organization received additional clarification from DHCS regarding the inputs required to calculate the Community Reinvestment and Quality Achievement accrual. As a result of the new information, there was a net decrease in liabilities related to Community Reinvestment for the year ended June 30, 2025, of approximately $18,579,000. As of June 30, 2025, the balance of the community reinvestment and quality achievement accrual was estimated at approximately $38,166,000 and $49,932,000, respectively for a total estimated accrual of approximately $88,098,000.

Additionally, the new information from DHCS indicated that these Community Reinvestment funds should not be allocated towards activities included in the Managed Care Plan (MCP) Contract or services carved out of the MCP Contract but covered under Medi-Cal. Community reinvestment obligations may also not be met through expenditures for activities aimed at improving health care quality as defined by certain federal regulations, administrative functions of the MCP including tasks related to Community Reinvestment planning or implementation, and member incentives or grants.

As a result, the Organization reclassified approximately $106,677,000 from other medical expenses to other non-operating expenses in the statements of revenues, expenses, and changes in net position for the year ended June 30, 2024. The reclassification represents a change in accounting estimate based on new information and is not considered an accounting error.

Accrued compensated absences – CalOptima Health implemented GASB Statement No. 101, *Compensated Absences* (GASB 101), effective July 1, 2023. The objective of GASB 101 is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. It also requires that a liability for specific types of compensated absences not be recognized until the leave is used. CalOptima Health was in compliance with GASB 101 prior to its issuance; therefore, the implementation of GASB 101 had no effect on the beginning net position of CalOptima Health as of July 1, 2023.

CalOptima Health's policy permits employees who are regularly scheduled to work more than 20 hours per week to accrue 23 days of paid time off (PTO) based on their years of continuous service, with an additional week of accrual after three years of service and another after 10 years of service. In the event that available PTO is not used by the end of the benefit year, employees may carry unused time off into subsequent years, up to the maximum accrual amount equal to two (2) times the employee's annual accrual. If an employee reaches his or her maximum PTO accrual amount, the employee will stop accruing PTO. Accumulated PTO will be paid to the employees upon separation from service with CalOptima Health. All compensated absences are included in accrued payroll and employee benefits and other on the statements of net position.

Net position – Net position is reported in three categories, defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, subscription-based information technology arrangements (SBITAs), and right of use (ROU) assets including restricted capital assets, net of accumulated depreciation and amortization, and is reduced by the outstanding balances of any bonds, notes, or other borrowings (if any) that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted by legislative authority* – This component of net position consists of external constraints placed on net asset use by creditors (such as through debt covenants), grantors, contributors, or the laws or regulations of other governments. It also pertains to constraints imposed by law, constitutional provisions, or enabling legislation (see Note 9).

- *Unrestricted* – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Operating revenues and expenses – CalOptima Health's statements of revenues, expenses, and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with arranging for the provision of health care services. Operating expenses are all expenses incurred to arrange for the provision of health care services, as well as the costs of administration. Unpaid claims adjustment expenses are an estimate of the cost to process the IBNR claims and are included in operating expenses. Non-exchange revenues and expenses are reported as non-operating revenues and expenses.

Revenue recognition and due to or from the State and CMS – Premium revenue is recognized in the period the members are eligible to receive health care services. Premium revenue is generally received from the State each month following the month of coverage based on estimated enrollment and capitation rates as provided for in the State contract. As such, premium revenue includes an estimate for amounts receivable from or refundable to the State and for retrospective adjustments. These estimates are continually monitored and analyzed, with any adjustments recognized in the period when determined. OneCare premium revenue is generally received from CMS each month for the month of coverage. Premiums received in advance are recorded in unearned revenue on the statements of net position. Included in premium revenue are retroactive adjustments favorable to CalOptima Health in the amount of approximately $393,011,000 and $966,461,000 related to retroactive capitation rate adjustments based on receipt of new information from DHCS during the years ended June 30, 2025 and 2024, respectively.

These estimates are continually reviewed, and adjustments to the estimates are reflected currently in the statements of revenues, expenses, and changes in net position. Eligibility of beneficiaries is determined by DHCS and validated by the State. The State provides CalOptima Health the validated monthly eligibility file of program beneficiaries who are continuing, newly added, or terminated from the program in support of premium revenue for the respective month.

Premium revenue and related net receivables as a percent of the totals were as follows as of June 30:

	2025		2024	
	Revenue	%	Revenue	%
Revenue				
Medi-Cal	$ 4,575,205,978	90.9%	$ 4,918,009,421	91.5%
OneCare	403,654,853	8.0%	407,480,604	7.6%
PACE	54,674,495	1.1%	47,473,870	0.9%
	$ 5,033,535,326	100.0%	$ 5,372,963,895	100.0%

	2025		2024	
	Receivables	%	Receivables	%
Receivables				
Medi-Cal	$ 612,756,130	93.8%	$ 438,045,910	91.6%
OneCare	11,815,080	1.9%	16,536,135	3.5%
OneCare Connect	23,922,514	3.7%	19,720,151	4.1%
PACE	5,043,849	0.8%	4,133,845	0.9%
	$ 653,537,573	100.0%	$ 478,436,041	100.0%

Intergovernmental transfer – CalOptima Health entered into an agreement with DHCS and Governmental Funding Entities to receive an intergovernmental transfer (IGT) through a capitation rate increase of approximately $160,474,000 and $147,059,000 during the years ended June 30, 2025 and 2024, respectively. Under the agreement, approximately $158,986,000 and $145,317,000 of the funds that were received from the IGT were passed through to Governmental Funding Entities and other contracted providers and organizations during the years ended June 30, 2025 and 2024, respectively. Under GASB, the amounts that will be passed through to Governmental Funding Entities are not reported in the statements of revenues, expenses, and changes in net position. CalOptima Health retains a portion of the IGT to support the administration of the program. Prior IGT funds retained by CalOptima Health from 2011 to 2017, must be used to enhance provider reimbursement rates, strengthen the delivery system, and support the administration of the IGT program. The funds expended must be tied to covered medical services provided to CalOptima Health's Medi-Cal beneficiaries. A retainer in the amount of approximately $4,505,000 and $2,918,000 as of June 30, 2025 and 2024, respectively, is included in unearned revenues in the statements of net position.

Directed Payments – DHCS implemented a hospital Directed Payment program with CalOptima Health. The program implements enhanced reimbursement to eligible and participating network hospitals for contracted services. This hospital Directed Payment program is broken into five types: (1) Private Hospital Directed Payment Program (PHDP), (2) Public Hospital Enhanced Payment Program (EPP), (3) Public Hospital Quality Incentive Program (QIP), (4) Skilled Nursing Facility (SNF) Workforce and Quality Incentive Program (WQIP), and (5) Equity and Practice Transformation (EPT). Under the Directed Payment program, approximately $383,270,000 and $314,307,000 of the funds that were received from DHCS were passed through to hospitals as requested by DHCS during the years ended June 30, 2025 and 2024, respectively. The receipts from DHCS are included in premium revenues, and the payments made to the hospitals are included in other medical expenses in the statements of revenues, expenses, and changes in net position.

Medicare Part D – CalOptima Health covers prescription drug benefits in accordance with Medicare Part D under multiple contracts with CMS. The payments CalOptima Health receives monthly from program premiums, which are determined from its annual bid, represent amounts for providing prescription drug insurance coverage. CalOptima Health recognizes premiums for providing this insurance coverage ratably over the term of its annual contract. CalOptima Health's CMS payment is subject to risk sharing through the Medicare Part D risk corridor provisions. In addition, receipts for reinsurance and low-income cost subsidies, as well as receipts for certain discounts on brand-name prescription drugs in the coverage gap, represent payments for prescription drug costs for which CalOptima Health is not at risk.

The risk corridor provisions compare costs targeted in CalOptima Health's bids to actual prescription drug costs, limited to actual costs that would have been incurred under the standard coverage as defined by CMS. Variances exceeding certain thresholds may result in CMS making additional payments to CalOptima Health or require CalOptima Health to refund to CMS a portion of the premiums CalOptima Health received. CalOptima Health estimates and recognizes an adjustment to premiums revenue related to these risk corridor provisions based upon pharmacy claims experience to date, as if the annual contract were to terminate at the end of the reporting period. Accordingly, this estimate provides no consideration to future pharmacy claims experience. CalOptima Health records a receivable or payable at the contract level and classifies the amount as current or long-term in the accompanying statements of net position based on the timing of the expected settlement. As of June 30, 2025 and 2024, the Part D payable balance was approximately $14,205,000 and $8,808,000, respectively, and is included in the due to the State of California and CMS line item on the accompanying statements of net position. As of June 30, 2025 and 2024, the Part D receivable balance was approximately $65,330,000 and $52,167,000, respectively, and is included in the prepaid expenses and other line item on the accompanying statements of net position.

Income taxes – CalOptima Health operates under the purview of the Internal Revenue Code (IRC), Section 501(a), and corresponding California Revenue and Taxation Code provisions. As such, CalOptima Health is not subject to federal or state taxes on related income. Accordingly, no provision for income tax has been recorded in the accompanying financial statements.

Premium taxes – Effective July 1, 2016, Senate Bill X2-2 (SB X2-2), *Managed Care Organization Tax*, authorized DHCS to implement a Managed Care Organization (MCO) provider tax subject to approval by CMS. This approved tax structure is based on enrollment (total member months) between specified tiers that are assessed different tax rates. During fiscal year 2020, the MCO tax was extended with an effective date of January 1, 2020, through December 31, 2022. Effective December 15, 2023, and retroactive to April 1, 2023, CMS approved the extension of the MCO tax through the end of December 2026. Using the approved structure, each MCO's total tax liability for the years ended June 30, 2025 and 2024, was calculated. CalOptima Health recognized premium tax expense of approximately $863,939,000 and $657,657,000 as a reduction of premium revenues in the statements of revenue, expenses, and changes in net position for the years ended June 30, 2025 and 2024, respectively. As of June 30, 2025 and 2024, CalOptima Health's MCO tax liability was approximately $201,453,000 and $153,920,000, respectively, and is included in the due to the State of California and CMS line item on the accompanying statements of net position.

Risk corridors – All risk corridors are subject to certain thresholds of medical expenses compared to premium revenues. Variances exceeding the thresholds may require CalOptima Health to refund premium revenues back to DHCS. CalOptima Health estimates and recognizes an adjustment to premium revenues based on actual membership and capitation rates in effect. As of June 30, 2025 and 2024, CalOptima Health recognized a liability of approximately $204,585,000 and $304,789,000, respectively, related to the risk corridors, which is included in the due to the State of California and CMS line item on the statements of net position. During the year ended June 30, 2025, the reduction to premium revenue was approximately $47,635,000 and for year ended June 30, 2024, the increase of premium revenue was approximately $599,501,700 related to the risk corridors, which is included in premium revenues on the statements of revenues, expenses, and changes in net position. Below is a list of programs with risk corridor accruals as of June 30, 2025 and 2024:

- Research and Prevention Tobacco Tax Act of 2016 (Proposition 56)
- Coordinated Care Initiative (CCI)
- Bridge Period COVID-19
- Enhanced Care Management
- Unsatisfactory Immigration Status (UIS)

The State's fiscal year 2020-21 enacted budget and CalOptima Health's contract included a COVID-19 (previously called Gross Medical Expense) risk corridor for the initial period of July 1, 2019, to December 31, 2020, with the option to extend the risk corridor starting on or after January 1, 2021, should the State determine it necessary to account for the impacts of the COVID-19 public health emergency. During the year ended June 30, 2024, CalOptima Health was made aware that the State would not be enforcing the COVID-19 risk corridor for the periods starting on or after January 1, 2021. As such, the Organization released $646,800,000 of liabilities relating to the COVID-19 risk corridor during the year ended June 30, 2024.

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

Subscription-Based Information Technology Arrangements – CalOptima Health is the end user for various SBITAs. Short-term SBITAs, which have a maximum possible term of 12 months, are recognized as an outflow of resources when payment is made. For SBITAs with subscription terms extending beyond one year, CalOptima Health recognizes a right-to-use subscription asset and a corresponding subscription liability. Initial measurement of the subscription asset/liability is calculated at the present value of payments expected to be paid during the subscription term, discounted using the incremental borrowing rate. The right-to-use asset is amortized on a straight-line basis over the subscription term.

Reclassifications – Certain reclassifications have been made to the prior-year amounts to conform to the current-year presentation.

Recent accounting pronouncements – In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements* (GASB 103). The objective of GASB 103 is to improve key components of the financial reporting model. The purposes of the improvements are to (a) enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and (b) address certain application issues identified through pre-agenda research conducted by the GASB. GASB 103 effective for CalOptima Health during the year ending June 30, 2026. Management is currently evaluating the impact of adoption of this standard on the financial statements.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital* (GASB 104). The objective of GASB 104 is to provide users of government financial statements with essential information about certain types of capital assets. GASB 104 requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34 as well as certain intangible assets to be disclosed separately by major class. GASB 104 also requires additional disclosures for capital assets held for sale. This Statement requires that capital assets held for sale be evaluated each reporting period. GASB 104 is effective for CalOptima Health during the year ending June 30, 2026. Management is currently evaluating the impact of adoption of this standard on the financial statements.

Note 3 – Cash, Cash Equivalents, and Investments

Cash and investments are reported in the statements of net position as follows as of June 30:

	2025	2024
Current assets		
Cash and cash equivalents	$ 475,203,956	$ 527,999,319
Investments	1,340,926,602	1,777,895,941
Board-designated assets and restricted cash		
Cash and cash equivalents	6,677,329	22,817,912
Investments	1,710,130,179	1,114,945,527
Restricted deposit	300,000	300,000
	$ 3,533,238,066	$ 3,443,958,699

Board-designated assets and restricted cash were available for the following purposes as of June 30:

	2025	2024
Board-designated assets and restricted cash		
Contingency reserve fund	$ 1,716,807,508	$ 1,137,763,439
Restricted deposit with DMHC	300,000	300,000
	$ 1,717,107,508	$ 1,138,063,439

Custodial credit risk deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Organization may not be able to recover its deposits or collateral securities that are in the possession of an outside party. The California Government Code requires that a financial institution secure deposits made by public agencies by pledging securities in an undivided collateral pool held by a depository regulated under the state law. As of June 30, 2025 and 2024, no deposits were exposed to custodial credit risk, as the Organization has pledged collateral to cover the amounts.

Investments – CalOptima Health invests in obligations of the U.S. Treasury, other U.S. government agencies and instrumentalities, state obligations, corporate securities, money market funds, and mortgage- or asset-backed securities.

Interest rate risk – In accordance with its annual investment policy (investment policy), CalOptima Health manages its exposure to declines in fair value from increasing interest rates by matching maturity dates to the extent possible with CalOptima Health's expected cash flow draws. The investment policy limits maturities to five years, while also staggering maturities. CalOptima Health maintains a low-duration strategy, targeting a portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile because they are less sensitive to interest rate changes. As of June 30, 2025 and 2024, CalOptima Health's investments, including cash equivalents, had the following modified duration:

	June 30, 2025			
		Investment Maturities (in Years)		
Investment Type	Fair Value	Less Than 1	1–5	More Than 5
U.S. Treasury notes	$ 1,056,051,175	$ 91,981,484	$ 964,069,691	$ -
U.S. Agency notes	100,608,023	-	100,608,023	-
Corporate bonds	955,165,722	47,590,754	907,574,968	-
Asset-backed securities	265,439,326	13,414,645	252,024,681	-
Mortgage-backed securities	377,695,982	4,129,370	373,566,612	-
Municipal bonds	93,903,321	19,315,252	74,588,069	-
Government-related	2,861,711	-	2,861,711	-
Commercial paper	76,139,294	76,139,294	-	-
Certificates of deposit	102,167,795	79,670,538	22,497,257	-
Cash equivalents	365,324,032	365,324,032	-	-
Cash	13,341,197	13,341,197	-	-
	$ 3,408,697,578	$ 710,906,566	$ 2,697,791,012	$ -
Accrued interest receivable	21,024,431			
	$ 3,429,722,009			

	June 30, 2024			
		Investment Maturities (in Years)		
Investment Type	Fair Value	Less Than 1	1–5	More Than 5
U.S. Treasury notes	$ 971,992,504	$ 314,637,165	$ 657,355,339	$ -
U.S. Agency notes	262,740,439	8,391,603	254,348,836	-
Corporate bonds	847,388,142	71,686,337	775,701,805	-
Asset-backed securities	282,066,505	3,051,718	279,014,787	-
Mortgage-backed securities	338,957,054	3,489,987	335,467,067	-
Municipal bonds	34,517,897	1,999,272	32,518,625	-
Government-related	47,509,397	-	47,509,397	-
Commercial paper	11,838,720	11,838,720	-	-
Certificates of deposit	73,825,050	73,825,050	-	-
Cash equivalents	449,240,016	449,240,016	-	-
Cash	17,235,722	17,235,722	-	-
	$ 3,337,311,446	$ 955,395,590	$ 2,381,915,856	$ -
Accrued interest receivable	22,012,384			
	$ 3,359,323,830			

Investments with fair values highly sensitive to interest rate fluctuations – When interest rates fall, debt is refinanced and paid off early. The reduced stream of future interest payments diminishes the fair value of the investment. The mortgage-backed and asset-backed securities in the CalOptima Health portfolios are of high credit quality, with relatively short average lives that represent limited prepayment and interest rate exposure risk. CalOptima Health's investments included the following investments that are highly sensitive to interest rate and prepayment fluctuations to a greater degree than already indicated in the information provided above as of June 30:

	2025	2024
Asset-backed securities	$ 265,439,326	$ 282,066,505
Mortgage-backed securities	377,695,982	338,957,054
	$ 643,135,308	$ 621,023,559

Credit risk – CalOptima Health's investment policy conforms to the California Government Code as well as to customary standards of prudent investment management. Credit risk is mitigated by investing in only permitted investments. The investment policy sets minimum acceptable credit ratings for investments from the three nationally recognized rating services: Standard and Poor's Corporation (S&P), Moody's Investor Service (Moody's), and Fitch Ratings (Fitch). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than A.As of June 30, 2025, the credit ratings of investments and cash equivalents were as follows:

Investment Type	Fair Value	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-End					
				AAA or A1/P1	Aa & Aa+	Aa-	A+	A	A-
U.S. Treasury notes	$ 1,232,188,052	N/A	$ 1,232,188,052	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Agency notes	101,249,488	N/A	101,249,488	-	-	-	-	-	-
Corporate bonds	964,913,168	A-	-	41,172,765	65,791,623	148,143,887	195,576,926	310,128,062	204,099,905
Supranational	2,986,618	AA	-	2,986,618	-	-	-	-	-
Asset-backed securities	265,906,046	AA-	-	259,687,225	6,218,821	-	-	-	-
Mortgage-backed securities	378,464,085	AA-	-	327,529,570	50,934,515	-	-	-	-
Municipal bonds	108,132,906	A-	-	54,909,648	27,573,623	5,087,446	456,838	3,774,131	16,331,220
Certificates of deposit	102,676,170	A1/P1	-	102,676,170	-	-	-	-	-
Commercial paper	259,864,279	A-1	-	85,355,082	-	8,026,305	18,960,096	147,522,796	-
Money market mutual funds	13,341,197	AAA	-	13,341,197	-	-	-	-	-
Total	$ 3,429,722,009		$ 1,333,437,540	$ 887,658,275	$ 150,518,582	$ 161,257,638	$ 214,993,860	$ 461,424,989	$ 220,431,125

As of June 30, 2024, the credit ratings of investments and cash equivalents were as follows:

Investment Type	Fair Value	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-End					
				AAA or A1/P1	Aa & Aa+	Aa-	A+	A	A-
U.S. Treasury notes	$ 1,083,583,975	N/A	$ 1,083,583,975	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Agency notes	266,216,187	N/A	266,216,187	-	-	-	-	-	-
Corporate bonds	855,910,653	A-	-	47,341,323	51,056,528	187,449,322	167,122,957	218,194,941	184,745,582
Asset-backed securities	282,501,052	AA-	-	273,772,351	8,728,701	-	-	-	-
Mortgage-backed securities	339,644,477	AA-	-	339,644,477	-	-	-	-	-
Municipal bonds	83,090,777	A-	-	38,831,407	27,557,505	13,101,688	726,226	2,873,951	-
Supranational	47,839,438	AA	-	47,839,438	-	-	-	-	-
Repurchase agreement	37,016,342	N/A	-	-	-	-	-	37,016,342	-
Certificates of deposit	75,141,932	A1/P1	-	75,141,932	-	-	-	-	-
Commercial paper	271,143,275	A1	-	-	-	-	-	271,143,275	-
Money market mutual funds	17,235,722	AAA	-	17,235,722	-	-	-	-	-
Total	$ 3,359,323,830		$ 1,349,800,162	$ 839,806,650	$ 87,342,734	$ 200,551,010	$ 167,849,183	$ 529,228,509	$ 184,745,582

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of CalOptima Health's investment in a single issuer. CalOptima Health's investment policy limits no more than 5% of the total fair value of investments in the securities of any one issuer, except for obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises, and no more than 10% may be invested in one money market mutual fund. As of June 30, 2025 and 2024, all holdings complied with the foregoing limitations.

The Organization categorizes its fair value investments within the fair value hierarchy established by U.S. GAAP. The hierarchy for fair value measurements is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date.

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – Significant unobservable inputs.

The following is a description of the valuation methodologies used for instruments at fair value on a recurring basis and recognized in the accompanying statements of net position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Marketable securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These securities are classified within Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

	Investment Assets at Fair Value as of June 30, 2025			
	Level 1	Level 2	Level 3	Total
U.S. Treasury notes	$ 1,056,051,175	$ -	$ -	$ 1,056,051,175
U.S. Agency notes	-	100,608,023	-	100,608,023
Corporate bonds	-	955,165,722	-	955,165,722
Asset-backed securities	-	265,439,326	-	265,439,326
Mortgage-backed securities	-	377,695,982	-	377,695,982
Municipal bonds	-	93,903,321	-	93,903,321
Government-related	-	2,861,711	-	2,861,711
Commercial paper	-	76,139,294	-	76,139,294
Certificates of deposit	-	102,167,795	-	102,167,795
	$ 1,056,051,175	$ 1,973,981,174	$ -	$ 3,030,032,349

	Investment Assets at Fair Value as of June 30, 2024			
	Level 1	Level 2	Level 3	Total
U.S. Treasury notes	$ 840,085,184	$ 131,907,320	$ -	$ 971,992,504
U.S. Agency notes	-	262,740,439	-	262,740,439
Corporate bonds	-	847,388,142	-	847,388,142
Asset-backed securities	-	282,066,505	-	282,066,505
Mortgage-backed securities	-	338,957,054	-	338,957,054
Municipal bonds	-	34,517,897	-	34,517,897
Government-related	-	47,509,397	-	47,509,397
Commercial paper	-	11,838,720	-	11,838,720
Certificates of deposit	-	73,825,050	-	73,825,050
	$ 840,085,184	$ 2,030,750,524	$ -	$ 2,870,835,708

Note 4 – Capital Assets

Capital assets activity during the year ended June 30, 2025, consisted of the following:

	June 30, 2024	Additions	Retirements	Transfers	June 30, 2025
Capital assets not being depreciated					
Land	$ 15,439,067	$ -	$ -	$ -	$ 15,439,067
Construction in progress	8,062,076	6,131,045	-	(7,581,533)	6,611,588
	23,501,143	6,131,045	-	(7,581,533)	22,050,655
Capital assets being depreciated					
Furniture and equipment	9,478,750	-	(401,878)	725,582	9,802,454
Computers and software	40,527,864	-	(9,479,889)	6,861,396	37,909,371
Leasehold improvements	5,312,542	-	(13,475)	(5,445)	5,293,622
Building	69,053,311	5,134,860		-	74,188,171
	124,372,467	5,134,860	(9,895,242)	7,581,533	127,193,618
Less: accumulated depreciation for					
Furniture and equipment	8,007,586	721,866	(401,878)	-	8,327,574
Computers and software	33,795,436	5,045,050	(9,479,889)	-	29,360,597
Leasehold improvements	5,101,443	35,441	(13,475)	-	5,123,409
Building	23,699,000	2,961,547	-	-	26,660,547
	70,603,465	8,763,904	(9,895,242)	-	69,472,127
Total depreciable assets, net	53,769,002	(3,629,044)	-	7,581,533	57,721,491
Capital assets, net	$ 77,270,145	$ 2,502,001	$ -	$ -	$ 79,772,146

Capital asset activity during the year ended June 30, 2024, consisted of the following:

	June 30, 2023	Additions	Retirements	Transfers	June 30, 2024
Capital assets not being depreciated					
Land	$ 11,912,499	$ 3,526,568	$ -	$ -	$ 15,439,067
Construction in progress	3,043,229	11,178,673	-	(6,159,826)	8,062,076
	14,955,728	14,705,241	-	(6,159,826)	23,501,143
Capital assets being depreciated					
Furniture and equipment	8,936,861	-	-	541,889	9,478,750
Computers and software	36,355,519	-	(739,103)	4,911,448	40,527,864
Leasehold improvements	5,296,726	-		15,816	5,312,542
Building	63,883,316	4,510,769	(31,447)	690,673	69,053,311
	114,472,422	4,510,769	(770,550)	6,159,826	124,372,467
Less: accumulated depreciation for					
Furniture and equipment	7,351,339	656,247	-	-	8,007,586
Computers and software	29,792,302	4,197,346	(194,212)	-	33,795,436
Leasehold improvements	5,051,949	49,494	-	-	5,101,443
Building	21,043,433	2,656,615	(1,048)	-	23,699,000
	63,239,023	7,559,702	(195,260)	-	70,603,465
Total depreciable assets, net	51,233,399	(3,048,933)	(575,290)	6,159,826	53,769,002
Capital assets, net	$ 66,189,127	$ 11,656,308	$ (575,290)	$ -	$ 77,270,145

The Organization recognized depreciation expense of approximately $8,642,000 and $7,421,000 during the years ended June 30, 2025 and 2024, respectively. During the years ended June 30, 2025 and 2024, depreciation expense of approximately $122,000 and $139,000, respectively, is included within PACE medical expenses on the accompanying statements of revenues, expenses, and changes in net position.

Note 5 – Medical Claims Liability

Medical claims liability consisted of the following as of June 30:

	2025	2024
Claims payable or pending approval	$ 23,994,131	$ 38,371,849
Provisions for IBNR claims	358,538,240	331,061,747
	$ 382,532,371	$ 369,433,596

The cost of health care services is recognized in the period in which care is provided and includes an estimate of the cost of services that has been IBNR. CalOptima Health estimates accrued claims payable based on historical claims payments and other relevant information. Unpaid claims adjustment expenses are an estimate of the cost to process the IBNR claims and are included in medical claims liability. Estimates are continually monitored and analyzed 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. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided.

The following is a reconciliation of the medical claims liability for the years ended June 30:

	2025	2024
Beginning balance	$ 369,433,596	$ 333,993,756
Incurred		
Current	2,494,882,739	2,394,253,671
Prior	(110,308,536)	(91,115,588)
	2,384,574,203	2,303,138,083
Paid		
Current	2,112,350,368	2,024,213,932
Prior	259,125,060	243,484,311
	2,371,475,428	2,267,698,243
Ending balance	$ 382,532,371	$ 369,433,596

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately adjudicated and paid. Liabilities at any year-end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared to the originally established prior-reporting-period liability. Negative amounts reported for incurred related to prior years, result from claims being adjudicated and paid for amounts less than originally estimated. The results included a decrease of prior-year incurred of approximately $110,309,000 and $91,116,000 for the years ended June 30, 2025 and 2024, respectively. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

The amounts accrued in the due to the State of California and CMS line item represent excess payments from DHCS that are primarily due to capitation payments received that do not reflect the current Medi-Cal rates issued by DHCS. DHCS continues to process the recoupments, and the remaining overpayments not yet recouped are included within the due to the State of California and CMS line item on the statements of net position.

Note 6 – Defined Benefit Pension Plan

Plan description – CalOptima Health's defined benefit pension plan, the CalPERS Plan, provides retirement and disability benefits, annual cost-of-living adjustments (COLAs), and death benefits to plan members and/or beneficiaries. The CalPERS Plan is part of the public agency portion of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Optional contract provisions are available through the California Public Employees' Retirement Law (PERL). CalOptima Health selects optional benefit provisions by contracting with CalPERS and adopting those benefits through Board of Directors approval (See "Benefits provided" below for more details). CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for CalPERS. Copies of the report can be obtained from CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Benefits provided – CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, who must be public employees and/or beneficiaries. Pension benefits are based on plan members' years of service, age, and final compensation (three-year average) at the time of retirement. Members with five years of total service are eligible to retire at age 50 (Classic Member) or age 52 (New Member) with statutorily reduced benefits. All members are eligible for non-duty disability benefits if they have at least five years of service credit. Optional provisions elected by CalOptima Health include a 3% Cost of Living Allowance (Section 21335), 1959 Survivor Benefit Level 3 (Section 21573), $5,000 Retired Death Benefit (Section 21623.5), 3-Year Final Compensation Period (Section 20037), Pre-Retirement Death Benefits to Continue After Remarriage of Survivor (Section 21551), and service credit purchase options for military and peace corps service (Section 21024 and 21023.5, respectively).

The CalPERS Plan's provisions and benefits in effect as of June 30, 2025, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2 % at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 plus	52 plus
Monthly benefits as a % of eligible	1.092%-2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	8.25%
Required employer contribution rates	8.80%	8.80%

The following is a summary of plan participants:

	June 30, 2025	June 30, 2024
Active employees	1,657	1,599
Retirees and beneficiaries		
Receiving benefits	277	255
Deferred retirement benefits		
Terminated employees	1,130	1,332
Surviving spouses	8	5
Beneficiaries	3	2

Contributions – Section 20814(c) of the California PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall become effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The active employee contribution rate was 8.25% (Classic and PEPRA New Members) and 7.0% (Classic Members) of annual pay for the years ended June 30, 2025 and 2024, respectively. The employer's contribution rate is 8.80% and 9.17% of annual payroll for the years ended June 30, 2025 and 2024, respectively.

CalOptima Health's net pension liability for the CalPERS Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For the measurement period ended June 30, 2024 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2023, total pension liability. Total pension liabilities were based on the following actuarial methods and assumptions as of June 30, 2024 and June 30, 2023:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Discount rate	6.90%
Inflation	2.30%
Salary increases	Varies by Entry Age and Service
Investment rate of return	6.8% Net of Pension Plan Investment and Administrative Expenses; Includes Inflation
Mortality rate table	Derived using CalPERS' Membership data for all funds
Post-retirement benefit increase	Contract COLA up to 2.3% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

Changes in the net pension liability during the year ended June 30, 2025, were as follows:

	Increase (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2024	$ 317,035,251	$ 271,053,892	$ 45,981,359
Changes during the year			
Service cost	24,542,761	-	24,542,761
Interest on the total pension liability	23,886,852	-	23,886,852
Differences between expected and actual experience	20,191,968	-	20,191,968
Contributions from the employer	-	66,553,158	(66,553,158)
Contributions from employees	-	12,197,909	(12,197,909)
Net investment income	-	30,231,438	(30,231,438)
Benefit payments, including refunds of employee contributions	(6,624,673)	(6,624,673)	-
Administrative expenses	-	(220,557)	220,557
Net changes during the year	61,996,908	102,137,275	(40,140,367)
Balance at June 30, 2025	$ 379,032,159	$ 373,191,167	$ 5,840,992

	Increase (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2023	$ 277,170,471	$ 236,705,326	$ 40,465,145
Changes during the year			
Service cost	19,761,157	-	19,761,157
Interest on the total pension liability	19,987,952	-	19,987,952
Differences between expected and actual experience	5,143,171	-	5,143,171
Changes of assumptions	-	-	-
Contributions from the employer	-	14,017,949	(14,017,949)
Contributions from employees	-	10,478,979	(10,478,979)
Net investment income	-	15,053,200	(15,053,200)
Benefit payments, including refunds of employee contributions	(5,027,500)	(5,027,500)	-
Administrative expenses	-	(174,062)	174,062
Net changes during the year	39,864,780	34,348,566	5,516,214
Balance at June 30, 2024	$ 317,035,251	$ 271,053,892	$ 45,981,359

Discount rate and long-term rate of return – The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Organization's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 basis points.

The table below reflects long-term expected real rate of return by asset class.

Asset Class	Assumed Return Allocation	Real Return[(1)]
Global Equity – cap-weighted	30.0%	4.54%
Global Equity – non-cap-weighted	12.0%	3.84%
Private equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed securities	5.0%	0.50%
Investment-grade corporates	10.0%	1.56%
High-yield	5.0%	2.27%
Emerging market debt	5.0%	2.48%
Private debt	5.0%	3.57%
Real assets	15.0%	3.21%
Leverage	-5.0%	-0.59%

(1) An expected inflation of 2.3% was used for this period.
(2) Figures are based on the 2021 Asset Liability Management study.

The following presents the net pension liability of the CalPERS Plan calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	June 30, 2025		
	Discount Rate -1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
Net pension liability	$ 71,146,769	$ 5,840,992	$ (46,772,150)

	June 30, 2024		
	Discount Rate -1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
Net pension liability	$ 100,402,066	$ 45,981,359	$ 2,195,114

Pension expense and deferred outflows/inflows of resources related to pensions – CalOptima Health recognized pension expense of approximately $21,364,000 and $20,970,000 for the years ended June 30, 2025 and 2024, respectively. As of June 30, 2025 and 2024, CalOptima Health recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2025	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions from employers subsequent to the measurement date	$ 94,666	$ -
Net differences between projected and actual earnings on plan investments	2,361,239	-
Changes in assumptions	4,311,207	-
Differences between expected and actual experiences	20,669,960	(1,321,519)
	$ 27,437,072	$ (1,321,519)

	June 30, 2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions from employers subsequent to the measurement date	$ 1,877,932	$ -
Net differences between projected and actual earnings on plan investments	12,037,633	-
Changes in assumptions	5,542,981	(495,005)
Differences between expected and actual experiences	5,090,744	(1,753,440)
Additional contribution from employers subsequent to the measurement date	49,999,717	-
	$ 74,549,007	$ (2,248,445)

The deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2025. The differences reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Deferred Outflows of Resources
Years Ending June 30,	
2026	$ 4,916,834
2027	10,567,204
2028	3,511,988
2029	2,692,356
2030	3,370,981
Thereafter	961,524
	$ 26,020,887

Note 7 – Employee Benefit Plans

Deferred compensation plan – CalOptima Health sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the 457 Plan) under which employees are permitted to defer a portion of their annual salary until future years. CalOptima Health may make discretionary contributions to the 457 Plan as determined by the Board of Directors. For the years ended June 30, 2025 and 2024, no discretionary employer contributions were made.

Defined contribution plan – Effective January 1, 1999, CalOptima Health established a supplemental retirement plan for its employees called the CalOptima Public Agency Retirement System Defined Contribution Supplemental Retirement Plan (PARS Plan). CalOptima Health made discretionary employer contributions to the PARS Plan as authorized by the Board of Directors. PARS vesting occurred over 16 quarters of service. Effective January 30, 2025, CalOptima Health transitioned the PARS plan to a 401(a) Defined Contribution plan administered by Empower. Balance and future contributions were transferred and allocated. Participation eligibility remains the same and CalOptima Health continues to make discretionary employer contributions with Board approval. The vesting schedule changed to a vested percentage of 25% per year over four years. For the years ended June 30, 2025 and 2024, CalOptima Health contributed approximately $6,858,000 and $6,587,000, respectively.

Note 8 – Postemployment Health Care Plan

Plan description – CalOptima Health sponsors and administers a single-employer defined-benefit postemployment healthcare plan (the Plan) to provide medical, dental, and vision insurance benefits to eligible retired employees and their beneficiaries. Plan members receiving benefits contribute at the same rate as current active employees. Benefit provisions are established and may be amended by the Board of Directors.

Effective January 1, 2004, CalOptima Health terminated postemployment healthcare benefits for employees hired on or after January 1, 2004. For employees hired prior to January 1, 2004, the employee's eligibility for retiree health benefits remains similar to the eligibility requirements for the defined benefit pension plan. Surviving spouses are also eligible for this benefit.

During the year ended June 30, 2006, CalOptima Health modified the benefits offered to eligible participants, requiring participants to enroll in Medicare and specifying that CalOptima Health would be responsible only for the cost of Medicare supplemental coverage, subject to cost sharing between the participant and CalOptima Health.

For purposes of measuring the total postemployment retirement liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits (OPEB), and OPEB expense, information about the fiduciary net position of CalOptima Health's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

U.S. GAAP requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

Measurement date	June 30, 2024
Measurement period	July 1, 2023 – June 30, 2024
Valuation date	January 1, 2024

Covered employees – The following numbers of participants were covered by the benefit terms as of June 30:

	2025	2024
Inactives currently receiving benefits	78	78
Active employees	53	60
Inactives entitled to but not yet receiving benefits	6	2
Total	137	140

Contributions – The contribution requirements of plan members and CalOptima Health are established and may be amended by the Board of Directors. CalOptima Health's contribution is based on projected pay-as-you-go financing requirements, with no additional amount to prefund benefits. CalOptima Health contributed approximately $637,000 for the year ended June 30, 2025. CalOptima Health contributed approximately $522,000, which related to implied subsidies, for the year ended June 30, 2024. The most recent actuarial report for the Plan was June 30, 2024. As of that point, the actuarial accrued liability and unfunded actuarial accrued liability for benefits was approximately $17,249,000.

Actuarial assumptions – CalOptima Health's total postemployment retirement liability was measured as of June 30, 2024, and the assumptions used to calculate the total postemployment retirement liability were determined by an actuarial valuation dated January 1, 2024. The actuarial valuation was rolled forward to determine the total postemployment retirement liability as of June 30, 2024, and is based on the following actuarial methods and assumptions:

Salary increases	2.75% per annum, in aggregate
Medical trend	Non-Medicare – 8.50% for 2025, decreasing to an ultimate rate of 3.45% in 2076 Medicare (Non-Kaiser) – 7.50% for 2025, decreasing to an ultimate rate of 3.45% in 2076 Medicare (Kaiser) – 6.25% for 2025, decreasing to an ultimate rate of 3.45% in 2076
Discount rate	3.93% at June 30, 2024, Bond Buyer 20 Index 3.65% at June 30, 2023, Bond Buyer 20 Index
Mortality, retirement	CalPERS 2000-2019 Experience Study Post-retirement mortality projected fully generational with Scale MP-2021
General inflation	2.50% per annum

Discount rate and long-term rate of return – The discount rate used to measure the total OPEB liability was 3.93% for June 30, 2024. There were no plan investments; as such, the expected long-term rate of return on investment is not applicable.

Changes in the net OPEB liability – Changes in the net OPEB liability during the years ended June 30, 2025 and 2024, were as follows:

Balance at June 30, 2024	$ 17,370,000
Changes for the year	
Service cost	378,000
Interest	638,000
Assumption changes	(615,000)
Contributions – employer	(522,000)
Net changes	(121,000)
Balance at June 30, 2025	$ 17,249,000

Balance at June 30, 2023	$ 18,975,000
Changes for the year	
Service cost	472,000
Interest	679,000
Actual vs. expected experience	(3,332,000)
Assumption changes	1,104,000
Contributions – employer	(528,000)
Net changes	(1,605,000)
Balance at June 30, 2024	$ 17,370,000

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the net OPEB liability as of June 30, 2025, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.93%)	Current Rate (3.93%)	1% Increase (4.93%)
Total OPEB liability	$ 19,603,000	$ 17,249,000	$ 15,287,000

Sensitivity of the net OPEB liability to changes in health care cost trend rates – The following presents the net OPEB liability as of June 30, 2025, as well as what the net OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates:

	1% Decrease	Current Rate	1% Increase
Total OPEB liability	$ 14,964,000	$ 17,249,000	$ 20,059,000

For the years ended June 30, 2025 and 2024, CalOptima Health recognized a reduction to OPEB expense of approximately $2,733,000 and $2,227,000, respectively. As of June 30, 2025 and 2024, the reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2025	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,666,000
Changes in assumptions	552,000	1,322,000
Employer contributions made subsequent to measurement date	637,000	-
Total	$ 1,189,000	$ 2,988,000

	June 30, 2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,679,000
Changes in assumptions	828,000	2,719,000
Employer contributions made subsequent to measurement date	522,000	-
Total	$ 1,350,000	$ 6,398,000

The $637,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2024, measurement date will be recognized as a reduction of the total postemployment retirement liability during the year ended June 30, 2025.

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

	Deferred Inflows of Resources
Years Ending June 30,	
2026	$ (1,616,000)
2027	(733,000)
2028	(87,000)
	$ (2,436,000)

The required schedule of changes in total OPEB liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about the actuarial accrued liability for benefits.

Note 9 – Restricted Net Position

On June 28, 2000, CalOptima Health became a fully licensed health care service plan under the Act, as required by statutes governing the Healthy Families program. Under the Act, CalOptima Health is required to maintain and meet a minimum level of TNE as of June 30, 2025 and 2024, of $129,341,855 and $127,852,909, respectively. As of June 30, 2025 and 2024, the Organization was in compliance with its TNE requirement.

The Act further requires that CalOptima Health maintain a restricted deposit in the amount of $300,000. CalOptima Health met this requirement as of June 30, 2025 and 2024.

Note 10 – Lease Commitments

CalOptima Health leases office space and equipment under noncancelable, long-term operating leases, with minimum annual payments as follows:

	Minimum Lease Payments
Years Ending June 30,	
2026	$ 653,016
2027	710,210
2028	768,055
2029	791,097
2030	814,830
Thereafter	1,265,112
	$ 5,002,320

Rental expense under operating leases was approximately $713,000 for the years ended June 30, 2025 and 2024.

Note 11 – Contingencies

Litigation – CalOptima Health is party to various legal actions and is subject to various claims arising in the ordinary course of business. Management believes that the disposition of these matters will not have a material adverse effect on CalOptima Health's financial position or results of operations.

Regulatory matters – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties. Management believes that CalOptima Health is in compliance with fraud- and abuse-related, as well as other applicable government laws and regulations. Compliance with such laws and regulations could be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Organization is also subjected to risks and uncertainties arising from potential changes in federal health care policy, funding, and budgetary adjustments affecting Medicare and Medicaid programs. Proposed and potential reductions in Medicaid funding could indirectly impact Medicare beneficiaries by placing additional strain on state budgets. Cuts to Medicaid, including the elimination of the enhanced federal match rate for expansion enrollees or the introduction of work requirements, could result in significant coverage losses, particularly among low-income individuals, persons with disabilities, and those with chronic health conditions. In response to reduced federal funding, states may increase taxes or reduce funding for other essential programs. Potential policy changes under consideration include reductions in the federal Medicaid matching rate, implementation of work requirements, more frequent eligibility redeterminations leading to disenrollments, the adoption of per-capita caps on federal funding, and the elimination of provider taxes that help offset Medicaid costs. If enacted, such changes could compel states to reduce benefits, lower provider reimbursement rates, and increase financial pressures on state budgets, which may adversely affect the Organization's operations, network adequacy, and financial performance. However, the timing, likelihood, and specific impact of these policy changes remain uncertain.

Note 12 – Subscription-Based Information Technology Arrangements

CalOptima Health has several subscription contracts that expire at various dates through 2029, with some having certain renewal options. For those contracts where renewal options are reasonably certain to be exercised, CalOptima Health recognizes renewal option periods in the determinations of its intangible right-to-use subscription assets and subscription liabilities. CalOptima Health uses various rates ranging from 3.25% to 8.50% to determine the present value of the subscription liabilities. The amortization on the intangible subscription asset amounted to approximately $9,000,000 and $7,500,000 during the years ended June 30, 2025 and 2024, respectively, and is included in depreciation and amortization on the statements of revenues, expenses, and changes in net position. As of June 30, 2025 and 2024, CalOptima Health recognized approximately $18,851,000 and $19,291,000, respectively, in intangible right-to-use subscription assets, which are comprised of the intangible right-to-use subscription asset cost of approximately $38,940,000 and $30,372,000, respectively, less accumulated amortization of approximately $20,089,000 and $11,081,000, respectively. As of June 30, 2025 and 2024, CalOptima Health recognized approximately $17,812,000 and $17,730,000, respectively, in SBITA subscription liabilities.

The future subscription payments under SBITAs as of June 30, 2025, are as follows:

	Subscriptions		
	Principal	Interest	Total
Years Ending June 30,			
2026	$ 8,157,581	$ 1,031,399	$ 9,188,980
2027	6,946,502	525,573	7,472,075
2028	2,368,462	181,865	2,550,327
2029	2,139,468	13,967	2,153,435
Total undiscounted cash flows	$ 19,612,013	$ 1,752,804	21,364,817
Less: present value discount			3,552,576
Total subscription liabilities			$ 17,812,241

Note 13 – Subsequent Events

In July 2025, the Medicaid Provider Tax, which provided significant funding support to the Organization, was discontinued. While the Organization is currently assessing the full financial effect, management anticipates adjustments to its budgeting and operational plans to mitigate the impact. The Organization continues to monitor developments and assess specific effects resulting from the program's discontinuation.

Supplementary Information

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

Schedule of Changes in Net Pension Liability and Related Ratios

Years Ended June 30

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability										
Service cost	$ 24,542,761	$ 19,761,157	$ 17,958,280	$ 16,033,791	$ 15,223,385	$ 14,303,164	$ 13,491,596	$ 13,118,795	$ 10,272,406	$ 8,363,183
Interest	23,886,852	19,987,952	17,450,590	15,591,711	13,770,107	12,107,314	10,431,464	9,136,725	7,702,198	6,620,025
Differences between expected and actual experience	20,191,968	5,143,171	8,006,529	(477,252)	(405,662)	1,904,567	2,812,748	632,642	102,384	1,444,808
Changes in assumptions	-	-	(1,930,719)	-	-	-	(4,737,905)	9,163,547	-	(1,963,270)
Benefit payments, including refunds of employee contributions	(6,624,673)	(5,027,500)	(4,332,714)	(3,311,997)	(3,576,922)	(2,841,212)	(2,748,699)	(2,068,356)	(2,111,578)	(1,676,666)
Net change in total pension liability	61,996,908	39,864,780	37,151,966	27,836,253	25,010,908	25,473,833	19,249,204	29,983,353	15,965,410	12,788,080
Total pension liability – beginning	317,035,251	277,170,471	240,018,505	212,182,252	187,171,344	161,697,511	142,448,307	112,464,954	96,499,544	83,711,464
Total pension liability – ending	379,032,159	317,035,251	277,170,471	240,018,505	212,182,252	187,171,344	161,697,511	142,448,307	112,464,954	96,499,544
Plan fiduciary net position										
Contributions – employer	$66,553,158	14,017,949	11,688,269	10,742,812	9,608,656	8,661,466	7,588,200	5,234,580	3,787,544	3,033,171
Contributions – employee	12,197,909	10,478,979	8,634,939	7,981,938	7,518,241	6,853,391	6,213,420	5,793,911	4,951,820	4,142,126
Net investment income	30,231,438	15,053,200	(18,576,662)	42,647,021	8,189,430	9,377,613	10,225,467	11,496,425	498,498	1,913,380
Benefit payments, including refunds of employee contributions	(6,624,673)	(5,027,500)	(4,332,714)	(3,311,997)	(3,576,922)	(2,841,212)	(2,748,699)	(2,068,356)	(2,111,578)	(1,676,666)
Other changes in fiduciary net position	(220,557)	(174,062)	(149,157)	(181,370)	(225,629)	(98,234)	(530,428)	(143,264)	(54,828)	(101,246)
Net change in fiduciary net position	102,137,275	34,348,566	(2,735,325)	57,878,404	21,513,776	21,953,024	20,747,960	20,313,296	7,071,456	7,310,765
Plan fiduciary net position – beginning	271,053,892	236,705,326	239,440,651	181,562,247	160,048,471	138,095,447	117,347,487	97,034,191	89,962,735	82,651,970
Plan fiduciary net position – ending	373,191,167	271,053,892	236,705,326	239,440,651	181,562,247	160,048,471	138,095,447	117,347,487	97,034,191	89,962,735
Plan net pension liability – ending	$ 5,840,992	$ 45,981,359	$ 40,465,145	$ 577,854	$ 30,620,005	$ 27,122,873	$ 23,602,064	$ 25,100,820	$ 15,430,763	$ 6,536,809
Plan fiduciary net position as percentage of the total liability	98.46%	85.50%	85.40%	99.76%	85.57%	85.51%	85.40%	82.38%	86.28%	93.23%
Covered-employee payroll	$ 149,196,116	$ 120,641,983	$ 109,836,572	$ 103,913,095	$ 98,088,822	$ 91,587,145	$ 85,764,390	$ 80,217,654	$ 68,583,296	$ 55,676,606
Plan net pension liability as a percentage of covered-employee payroll	3.91%	38.11%	36.84%	0.56%	31.22%	29.61%	27.52%	31.29%	22.50%	11.74%

See report of independent auditors.

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

Schedule of Plan Contributions

Years Ended June 30

	Years Ended June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contributions	$ 16,553,441	$ 14,017,949	$ 11,688,269	$ 10,742,812	$ 9,608,656	$ 8,661,466	$ 7,588,200	$ 5,234,580	$ 3,787,544	$ 3,033,171
Contributions in relation to the actuarially determined contribution	(66,553,158)	(14,017,949)	(11,688,269)	(10,742,812)	(9,608,656)	(8,661,466)	(7,588,200)	(5,234,580)	(3,787,544)	(3,033,171)
Contribution deficiency (excess)	$ (49,999,717)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 149,196,116	$ 120,641,983	$ 109,836,572	$ 103,913,095	$ 98,088,822	$ 91,587,145	$ 85,764,390	$ 80,217,654	$ 68,583,296	$ 55,676,606
Contributions as a percentage of covered-employee payroll	11.10%	11.62%	10.64%	10.34%	9.80%	9.46%	8.85%	6.53%	5.52%	5.45%

See report of independent auditors.

Orange County Health Authority, A Public Agency dba Orange Prevention and Treatment Integrated Medical Assistance dba CalOptima Health

Schedule of Changes in Total OPEB Liability and Related Ratios

Periods Ended June 30

	2024-2025 (Measurement Period 2023–2024)	2023-2024 (Measurement Period 2022–2023)	2022-2023 (Measurement Period 2021–2022)	2021-2022 (Measurement Period 2020–2021)	2020-2021 (Measurement Period 2019–2020)	2019–2020 (Measurement Period 2018–2019)	2018–2019 (Measurement Period 2017–2018)	2017–2018 (Measurement Period 2016–2017)
Changes in total OPEB liability								
Service cost	$ 378,000	$ 472,000	$ 668,000	$ 1,149,000	$ 811,000	$ 832,000	$ 867,000	$ 1,012,000
Interest	638,000	679,000	487,000	718,000	922,000	977,000	900,000	770,000
Actual vs. expected experience	-	(3,332,000)	-	(6,241,000)	-	(1,072,000)	-	-
Assumption changes	(615,000)	1,104,000	(3,829,000)	(4,514,000)	4,623,000	938,000	(1,067,000)	(2,923,000)
Benefit payments	(522,000)	(528,000)	(529,000)	(544,000)	(570,000)	(556,000)	(560,000)	(572,000)
Net changes	(121,000)	(1,605,000)	(3,203,000)	(9,432,000)	5,786,000	1,119,000	140,000	(1,713,000)
Total OPEB liability (beginning of year)	17,370,000	18,975,000	22,178,000	31,610,000	25,824,000	24,705,000	24,565,000	26,278,000
Total OPEB liability (end of year)	$ 17,249,000	$ 17,370,000	$ 18,975,000	$ 22,178,000	$ 31,610,000	$ 25,824,000	$ 24,705,000	$ 24,565,000
Total OPEB liability	$ 17,249,000	$ 17,370,000	$ 18,975,000	$ 22,178,000	$ 31,610,000	$ 25,824,000	$ 24,705,000	$ 24,565,000
Covered-employee payroll	8,283,000	8,536,000	8,864,000	9,126,000	8,513,000	8,353,000	8,150,000	9,135,000
Total OPEB liability as a percentage of covered-employee payroll	208.2%	203.5%	214.1%	243.0%	371.3%	309.2%	303.1%	268.9%

See report of independent auditors.