



Finance Committee Meeting Agenda

October 13, 2026: 8:00 a.m. – 9:30 a.m.

In-person Locations:

Partnership's Chico Office located at 1000 Fortress St, Chico, CA
 Partnership's Fairfield Office located at 4605 Business Center Drive, Fairfield, CA (Conference Center)
 Partnership's Redding Office located at 2525 Airpark Dr., Redding, CA
 Partnership's Santa Rosa Office located at 495 Tesconi Circle, Santa Rosa, CA
 Partnership's Eureka Office located at 1036 5th Street, Eureka, CA
 Partnership's Auburn Office located at 281 Nevada Street, Auburn, CA

Finance Committee Members: Chris Champlin, Dave Jones, Chair, Ryan Gruver, Alicia Hardy, Dean Germano, Nancy Starck, Nolan Sullivan

Public Participation

Public comment is welcome during designated "Public Comments" time frames or by emailing comments to the Board Clerk at Board_FinanceClerk@partnershiphp.org by 5:00p.m. on October 12, 2026. Comments received will be read during the meeting.

8:00A.M – Opening			
1.1 Call to Order		Dean Germano, Chair Pro Tempore	
1.2 Roll Call		Clerk	
1.3	ACTION: Approval of Agenda	1	Chair
1.4	ACTION: Approval of Finance Committee Minutes from September 16, 2026	2-7	Chair
1.5 Commissioner Comment		Chair	
1.6 Public Comment		Public	
New Business			
2.1	ACTION: Resolution to Accept the Baker Tilly Audit Report for FY 2025-2026; This resolution accepts the audit report completed by Baker Tilly on Partnership’s financial statements for the period July 1, 2025 to June 30, 2026	8-63	Baker Tilly Auditors, Rianne Suico and Chris Pritchard
2.2	INFORMATION: CEO Health Plan Update	64	Sonja Bjork
2.3	ACTION: Accept August 2026 Metrics and Financials	65-78	Jennifer Lopez
2.4	ACTION: Resolution to Approve Capital Expenditure Budget Reallocation Authority	79-81	Jennifer Lopez
Adjournment			

Government Code §54957.5 requires that public records related to items on the open session agenda for a regular finance meeting be made available for public inspection. Records distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the committee. The Finance Committee has designated the Board Clerk as the contact for Partnership HealthPlan of California located at 4665 Business Center Drive, Fairfield, CA 94534, for the purpose of making those public records available for inspection. The Finance Committee Meeting Agenda and supporting documentation is available for review from 8:00 AM to 5:00 PM, Monday through Friday at all PHC regional offices (see locations above). It can also be found online at www.partnershiphp.org. PHC meeting rooms are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation (including auxiliary aids or services) to participate in this meeting, or who have a disability and wish to request an alternative format for the agenda, meeting notice, agenda packet or other writings that may be distributed at the meeting, should contact the Board Clerk at least two (2) working days before the meeting at 707-863-4516 or by email at ascott@partnershiphp.org. Notification in advance of the meeting will enable the Clerk to make reasonable arrangements to ensure accessibility to this meeting and to materials related to it. This agenda contains a brief description of each item to be considered. Except as provided by law, no action shall be taken on any item not appearing on the agenda.



**MINUTES OF THE MEETING OF
PARTNERSHIP HEALTHPLAN OF CALIFORNIA FINANCE COMMITTEE**
In person locations:

Partnership's Fairfield Office located at 4605 Business Center Drive, Fairfield, CA (Conference Center)
Partnership's Redding Office located at 2525 Airpark Dr., Redding, CA
Partnership's Santa Rosa Office located at 495 Tesconi Circle, Santa Rosa, CA
Partnership's Eureka Office located at 1036 5th Street, Eureka, CA
Partnership's Auburn Office located at 281 Nevada Street, Auburn, CA
Partnership's Chico Office located at 1000 Fortress Street, Chico, CA

**On
September 16, 2026**

Members Present:, Dean Germano, Alicia Hardy Dave Jones, Chair, Nancy Starck, Nolan Sullivan

Members Excused: Chris Champlin, Ryan Gruver

Staff: Leigha Andrews, Katherine Barresi, Wendell Coats, Marisa Dominguez, Ryan Eberle, Naomi Gordon, Melanie Lam, John Lemoine, Jennifer Lopez, Kathryn Power, Jose Puga, Brian Spiker, Amy Turnipseed, Colleen Valenti

AGENDA ITEM	DISCUSSION	MOTION / ACTION
1.2 Roll Call	Colleen Valenti, Assistant Clerk of the Commission, called the roll indicating there was a quorum.	None
1.3 Approval of Agenda	Chairman Jones asked if anyone had changes to the agenda. Hearing no requests for modification, he asked for a motion to approve the agenda.	<i>Commissioner Sullivan moved to approve the agenda as presented, seconded by Commissioner Germano.</i> <u>ACTION SUMMARY:</u> Yes: 4 No: 0 Abstention: 0 Excused: 2 (Champlin & Gruver) MOTION CARRIED

1.4 Approval of the June 17, 2026, Finance Committee Meeting Minutes	Chairman Jones asked if anyone had changes to the June 17, 2026, minutes. Hearing no requests for modification, he asked for a motion to approve the minutes.	<i>Commissioner Sullivan moved to approve the minutes as presented, seconded by Commissioner Germano.</i> <u>ACTION SUMMARY:</u> Yes: 4 No: 0 Abstention: 0 Excused: 2 (Champlin & Gruver) MOTION CARRIED
1.5 & 1.6 Public Comment and Commissioner Comment	Chairman Jones asked if there were any public or commissioner comments. There were none.	None
New Business		
2.1 CEO Report	Sonja Bjork, Chief Executive Officer, reported on the following topics: Community Reinvestments Ms. Bjork reviewed the Department of Health Care Services' (DHCS) requirements for community reinvestments, as outlined in APL 25-004. Allocations are based on plan net income, county membership, and quality performance. In June DHCS opened the Reinvest360 Submission Portal. Managed care plans must use this portal to submit each county's community reinvestment projects. Partnership completed the required process for its 14 eligible counties. The due date for submissions is October 15, 2026. DHCS is expected to review submissions and respond within 60 days after the deadline. DHCS released allocated amounts per county. Partnership's obligation is \$9.8M across fourteen counties, part of \$186M statewide. Amounts are based on CY 2024 net income. This includes allocations related to quality initiatives. Separate from quality allocations, are base obligations which must be applied to qualified community development activities. Partnership received some credit for the Provider Recruitment Program, an allowable investment in our communities. <i>Commissioner Hardy asked for clarification regarding how the quality allocations were calculated. Ms. Bjork replied that DHCS looked at MCAS scores, as well as additional measures. If Partnership received low scores in certain areas, more dollars must be allocated for quality.</i> <i>Commissioner Germano inquired if this will be an annual process and assumes next year will be predicated on positive results. Ms. Bjork confirmed that yes, obligated amounts would be calculated each year. It is unclear currently if there is a connection between results of this year's funding vs. what will be funded in the next round. Next year's obligations will be based on</i>	None

Partnership's financial outlook/net income from CY 2025. Ms. Bjork reminded the committee that Partnership/managed care plans did not choose the projects, counties did so based on their CHA/CHIP process and in consideration of input from the Community Advisory Committee. Partnership's role was/is to ensure that DHCS guidance was followed.

Commissioner Starck noted that community reinvestment amounts are based on revenue from two years earlier, creating a mismatch as current revenue declines and H.R. 1 takes effect. She asked whether DHCS recognizes this concern, particularly amid waiver uncertainty and obligations such as housing deposits. Ms. Bjork replied that Jennifer Lopez regularly raises relevant concerns during the DHCS small rates workgroup. Partnership's utilization and revenue trends are unfavorable as will discuss during our review of the monthly financials.

Federal Regulatory Changes

Work Requirements: Beginning January 1, 2027, the new federally mandated work requirements take effect that require non-exempt adult Medicaid/Medi-Cal enrollees, ages 19-64/non-pregnant, to complete 80 hours of work, community service, education or training to maintain coverage. States are now working on their eligibility systems to be ready for January 1.

In June, CMS released guidance regarding the medical frailty exemption. Qualifying conditions are:

- 1) Substance use disorder
- 2) Disabling mental disorder
- 3) Physical, intellectual, or developmental disability that limit daily activities
- 4) Serious or complex medical condition

Per CMS, a diagnosis does not result in an automatic exemption; there must be a nexus between the diagnosis or condition and a significant impairment of their ability to work. During the first year under the new guidelines, enrollees may self-attest for the exemption.

Additional exemptions include the Unemployment Hardship exception: enrollees can qualify for a work requirement exemption should they reside in a county with high unemployment rates at or above 8%, or 1.5x the national average.

Comprehensive Regulations to Uncover Suspicious Healthcare (CRUSH): A federal initiative launched earlier this year by CMS/HHS to target and eliminate fraud, waste and abuse. It consists of AI-driven fraud detection, supporting the federal FWA "War Room" effort to identify FWA in real-time. One of the first actions taken was to stop participation by non-enrolled providers. CMS has placed enrollment moratoriums on Hospice and DME providers.

California will be conducting the same type of monitoring, aligning with federal efforts. The CRUSH regulation has not yet been finalized and remains under review by the Office of Information and Regulatory Affairs.

	UIS Transition: Beginning January 1, 2027, federal rules will prohibit UIS populations from remaining in capitated managed care. Partnership is preparing required reports for the state and identifying care pathways for affected individuals after January 1. This work includes provider outreach, treatment-status review, and coordination with federally qualified health centers and county partners. Because transportation under fee-for-service may be less robust, staff are giving additional attention to members with complex or ongoing care needs, such as those receiving dialysis or drug and alcohol treatment. Community Supports Partnership is currently reviewing all Community Supports programs due to expenses related to high member acuity and declining revenue. Community Supports are optional in most instances but carry significant service and administrative costs. Partnership will be meeting with the state at the end of September regarding which Community Supports it will offer. Once elections have been set, Partnership will then be committed for one year, even though final rates have not yet been received from the state. Partnership plans to request flexibility and the opportunity to evaluate proposed 2027 rates in order to determine the financial impact. A report on that discussion will be presented at the October Finance Committee meeting. Hospital Directed Payments Approximately \$886 million in hospital directed payments is expected to flow through Partnership for distribution. This amount reflects combined calendar years 2024 and 2025. Distribution is anticipated during the second week of October. Partnership works with hospitals to ensure all relevant data is submitted so that hospitals are able to realize all directed payments for which they qualify.	
2.2 ACTION: Accept July 2026 Metrics and Financials	Jennifer Lopez, Chief Financial Officer, presented Metrics and Financials for July 2026, the first month of the fiscal year. For the month ending July 31, 2026, Partnership reported an operating deficit of \$17.1 million. Total revenue was unfavorable to budget by \$18.3 million for the month. Significantly higher expenses were observed in May and June, with the trend continuing in July, for non-inpatient spend. Advocacy efforts continue with DHCS for adjusted revenue in 2026. There continues to be unfunded mandates coming from the state that will require additional staff to support them. <i>Commissioner Hardy expressed surprise that rising costs were occurring in outpatient rather than inpatient settings and asked what was driving the increase. Ms. Lopez cited high-cost services and therapies, including CAR-T drugs that can cost several million dollars and are commonly administered in outpatient settings.</i> Interest income was \$0.8 million favorable to budget due to higher interest rates than expected. Total healthcare costs were favorable to budget by \$14.6 for the month. Non-capitated physician and	<i>Commissioner Germano moved to accept the July metrics and financials as presented, seconded by Commissioner Hardy.</i> <u>ACTION SUMMARY:</u> Yes: 4 No: 0 Abstention: 0 Excused: 2 (Champlin, Gruver) MOTION CARRIED

ancillary expenses were \$13.9 million unfavorable to budget, primarily due to adjustments to Incurred But Not Reported (IBNR) reserves based on updated cost and utilization trends. Partnership continues to focus on encouraging appropriate, lower-cost care settings whenever possible. Long-term care (LTC) expenses were favorable to budget by \$3.5 million due to lower than expected utilization.

Administrative expenses were favorable to budget by \$5.8 million.

Membership had a total net decrease of 2,813 members for the month. Membership declines moderated in August after a pronounced decrease between July 2025 and July 2026, which can in part be attributed to the end of pandemic-era flexibilities and fewer losses from ex-parte renewals. Although losses remain significant, the reduction among citizen members has slowed.

Partnership received draft 2027 rates from the state. Partnership is asking the state to recognize the higher acuity of the remaining membership in current rates.

Ms. Lopez discussed Partnership's current efforts to reduce healthcare costs. Internal workgroups are evaluating medical-cost and administrative levers, including out-of-area care, referral patterns to higher-cost facilities, and the use of local hospitals when clinically appropriate.

Additional Discussion/Questions

UIS: Commissioner Jones asked how UIS is defined. Ms. Bjork replied that the definition continues to evolve, particularly for individuals seeking lawful permanent resident status or Temporary Protected Status. She estimated a current loss of 84,000 to 85,000 UIS members and noted that the decline could increase in the coming months.

Metrics/Reserves: Commissioner Hardy inquired about how Partnership will address the financial outlook, given recent changes, whether focusing on reserve levels or adopting revised performance benchmarks, etc. Ms. Lopez replied that Partnership historically maintained more than 100 days cash on hand, but current expense levels could reduce cash below that level. This is a scenario we will face until additional information is received regarding 2026 revenue and what will happen in 2027 in regard to member acuity and rates. Staff will continue monitoring tangible net equity, cash, and fund balance. The goal is to remain well above the regulatory minimum and not fall below 400% of required tangible net equity; falling below 300% could expose the plan to fiscal monitoring.

Contracting: Commissioner Jones inquired about hospital contracting status. Ms. Bjork replied that Adventist were nearing completion. Additional discussions with Dignity Health, Providence, and UCSF are next. UCSF has stated that Partnership is outside of their catchment area, however Ms. Bjork noted that they are largely affiliated throughout Marin, resulting in natural referral patterns. Commissioner Jones stated that the large hospital systems have significant negotiating

	<i>leverage. Ms. Bjork also reported that private medical groups are experiencing revenue declines and may seek additional funding from Partnership.</i> Membership: <i>Ms. Lopez highlighted the financial risk created by retroactive membership adjustments. The state may retroactively determine that a member was ineligible for up to 13 months, requiring repayment.</i>	
Adjournment	Chairman Jones adjourned the meeting at 9:11AM.	None

Respectfully submitted by:
Colleen Valenti, Assistant Board Clerk

Committee Approval Date: 9/16/2026

Signed: _____
Colleen Valenti, Assistant Clerk

REGULAR AGENDA REQUEST
for
PARTNERSHIP HEALTHPLAN OF CALIFORNIA

Board / Finance Committee (when applicable)

Meeting Date: October 13, 2026

Board Meeting Date: October 28, 2026

Agenda Item Number:

2.1

Resolution Sponsor:

Sonja Bjork, CEO, Partnership HealthPlan of CA

Recommendation by:

Partnership Staff

Topic Description:

Baker Tilly has completed their audit of Partnership's financial statements for the period of July 1, 2025 to June 30, 2026. The audit was conducted in accordance with generally accepted auditing standards.

Reason for Resolution:

To provide Board members with the attached audit report conducted by Baker Tilly for review and acceptance.

Financial Impact:

The audited financial statements reflect a true and fair view of the HealthPlan's financial position and performance.

Requested Action of the Board:

Based on the recommendation of Partnership Staff, the Board is asked to accept the attached Baker Tilly Audit Report for the period of July 1, 2025 to June 30, 2026.

REGULAR AGENDA REQUEST
for
PARTNERSHIP HEALTHPLAN OF CALIFORNIA

Board / Finance Committee (when applicable)
Meeting Date: October 13, 2026
Board Meeting Date: October 28, 2026

Agenda Item Number:
2.1

Resolution Number:
26-

IN THE MATTER OF: ACCEPTING THE BAKER TILLY AUDIT REPORT FOR THE PERIOD OF JULY 1, 2025 TO JUNE 30, 2026

Recital: Whereas,

- A. Financial audits are a requirement of DHCS and are an essential component of the Board's oversight.
- B. The Board has responsibility for reviewing and accepting independent auditor reports for Partnership HealthPlan of California.

Now, Therefore, It Is Hereby Resolved As Follows:

- 1. To accept the attached Baker Tilly Audit Report for the period of July 1, 2025 to June 30, 2026.

PASSED, APPROVED, AND ADOPTED by the Partnership HealthPlan of California this 28th day of October 2026 by motion of Commissioner, seconded by Commissioner, and by the following votes:

AYES: Commissioners:

NOES: Commissioners:

ABSTAINED: Commissioners:

ABSENT: Commissioners:

EXCUSED: Commissioners:

Dean Germano, Chair

Date

ATTEST:

BY: _____
Ashlyn Scott, Board Clerk

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upon for any purpose

Report of Independent Auditors and
Financial Statements with Supplementary Information

Partnership Health Plan of California

June 30, 2026 and 2025

Table of Contents

	Page
Management's Discussion and Analysis	1
Report of Independent Auditors	13
Financial Statements	
Statements of Net Position	17
Statements of Revenues, Expenses, and Changes in Net Position	18
Statements of Cash Flows	19
Partnership Health Plan of California Supplemental Executive Retirement Plan – Statements of Fiduciary Net Position	21
Partnership Health Plan of California Supplemental Executive Retirement Plan – Statements of Changes in Fiduciary Net Position	22
Notes to Financial Statements	23
Supplementary Information	
Statement of Revenues, Expenses, and Changes in Net Position – Actual and Budget Operations	42
Required Supplementary Pension Benefit Information	
Supplementary Schedule of Changes in the Net Pension Asset and Related Ratios	44
Supplementary Schedule of Contributions	45
Partnership Health Plan of California Supplemental Executive Retirement Plan – Supplementary Schedule of Investment Returns	46

Management's Discussion and Analysis

Partnership Health Plan of California

Management's Discussion and Analysis

As of and for Years Ended June 30, 2026, 2025, and 2024

Our discussion and analysis of the Partnership Health Plan of California (the Health Plan) provides an overview of the Health Plan's financial activities for the years ended June 30, 2026, 2025, and 2024. The management's discussion and analysis should be read in conjunction with the Health Plan's audited financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Health Plan's basic financial statements consist of the statements of net position; statements of revenues, expenses, and changes in net position; statements of cash flows; fiduciary fund financial statements for the Health Plan's Supplemental Executive Retirement Plan (SERP); and the accompanying notes to the financial statements. These statements provide different, but related, information about the Health Plan's financial position and activities.

The statements of net position present the Health Plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of each fiscal year. These statements provide information about the Health Plan's financial position and the resources available to meet its ongoing obligations. Net position represents the residual amount after liabilities and deferred inflows of resources are deducted from assets and deferred outflows of resources.

The statements of revenues, expenses, and changes in net position present the Health Plan's operating and nonoperating activities for each fiscal year and explain the changes in net position resulting from those activities. Operating revenues consist primarily of revenues received from the California Department of Health Care Services for the provision of health care services to Medi-Cal members. Operating expenses consist primarily of health care expenses, general and administrative expenses, and premium tax expense. Nonoperating activities primarily consist of investment income and reinvestment of existing funds into the community.

The statements of cash flows provide information about the Health Plan's cash receipts and cash payments during each fiscal year. Cash flows are classified according to operating, capital and related financing, and investing activities. These statements provide information about the sources and uses of the Health Plan's cash and explain the change in cash and cash equivalents from the beginning to the end of each fiscal year.

The fiduciary fund financial statements present the financial position and changes in fiduciary net position of the Health Plan's Supplemental Executive Retirement Plan. Because those resources are held for the benefit of plan participants and beneficiaries rather than for the Health Plan's operations, the SERP's fiduciary activities are presented separately from the Health Plan's proprietary fund financial statements.

Partnership Health Plan of California

Management's Discussion and Analysis

As of and for Years Ended June 30, 2026, 2025, and 2024

FINANCIAL SUMMARY

The following table presents the condensed statements of net position for the Health Plan as of June 30, 2026, 2025, and 2024, and the change between periods:

Table 1 – Condensed statements of net position (dollars in thousands):

	2026	2025	Pre-GASB 103* 2024	Change from 2025	
				Amount	Percent
ASSETS					
Current assets	\$ 4,043,151	\$ 3,930,708	\$ 3,532,429	\$ 112,443	2.9%
Capital assets, net	195,361	174,472	133,499	20,889	12.0%
Other assets	9,142	5,667	25,828	3,475	61.3%
Net pension asset	8,187	5,715	4,919	2,472	43.3%
Total assets	4,255,841	4,116,562	3,696,674	139,279	3.4%
DEFERRED OUTFLOWS OF RESOURCES					
	2,500	2,745	1,620	(245)	(8.9%)
Total assets and deferred outflows of resources	\$ 4,258,341	\$ 4,119,307	\$ 3,698,294	\$ 139,034	3.4%
LIABILITIES					
CURRENT LIABILITIES	\$ 2,759,570	\$ 2,654,325	\$ 2,442,227	\$ 105,245	4.0%
SUBSCRIPTION LIABILITIES, net of current portion	10,887	774	847	10,113	1,306.6%
Total liabilities	2,770,457	2,655,099	2,443,074	115,358	4.3%
DEFERRED INFLOWS OF RESOURCES					
	12,579	6,658	7,618	5,921	88.9%
NET POSITION					
Net investment in capital assets	176,805	171,795	133,499	5,010	2.9%
Restricted	300	300	300	-	0.0%
Unrestricted	1,298,200	1,285,455	1,113,804	12,745	1.0%
Total net position	1,475,305	1,457,550	1,247,603	17,755	1.2%
Total liabilities, deferred inflows, and net position	\$ 4,258,341	\$ 4,119,307	\$ 3,698,294	\$ 139,034	3.4%

*Fiscal year 2024 amounts are presented on the basis originally reported and have not been reclassified to conform to the fiscal year 2026 presentation under GASB Statement No. 103. Accordingly, certain fiscal year 2024 classifications are not directly comparable to fiscal years 2025 and 2026.

DETAILED ANALYSES

ASSETS

Current assets increased by \$112.4 million from \$3.9 billion in 2025 to \$4.0 billion in 2026. This increase is primarily due to an increase in cash and cash equivalents primarily from the timing of cash receipts from the State. Net pension asset increased by \$2.5 million (43.3%) from 2025 to 2026. Deferred outflows of resources decreased by \$0.2 million (8.9%) from 2025 to 2026. Refer to Note 9 of the financial statements for additional information.

Partnership Health Plan of California
Management's Discussion and Analysis
As of and for Years Ended June 30, 2026, 2025, and 2024

Current assets increased by \$398.3 million in 2025, primarily due to receivable accruals for Directed Payments, Voluntary Rate Range, and Medi-Cal Managed Care Organizations (MCO) tax revenue (each with corresponding current liability accruals), as well as higher operating and investment income. The net pension asset and deferred outflows of resources increased by \$0.8 million (16.2%) and \$1.1 million (69.4%), respectively.

LIABILITIES

Total current liabilities increased by \$105.2 million from \$2.7 billion in 2025 to \$2.8 billion in 2026. This increase, primarily in Accounts Payable and Accrued Expenses, can be attributed to the accruals for Directed Payments and Voluntary Rate Range for calendar years 2025 and 2026, which has corresponding offsets in current assets. Also contributing to this increase is the MCO tax payable accrued for the year, which will be addressed in the upcoming sections. One last contributor to the increase is from the accrual recorded according to the Department of Health Care Services (DHCS) Community Reinvestments policy for calendar years 2024 and 2025, of which the amounts are directed by DHCS; calendar year 2024 investment amounts are final and calendar year 2025 investments amounts were estimated based on best available information and are subject to change.

Total current liabilities increased \$212.1 million in 2025, primarily due to higher Accounts Payable and Accrued Expenses related to Directed Payment and Voluntary Rate Range accruals (each with corresponding receivable accruals). The increase also reflects additional MCO tax payable accrued in 2025. These increases were partially offset by lower accrued claims payable.

NET POSITION

Total net position increased by \$17.8 million (1.2%) in 2026 from 2025. The increase is primarily due to a net non-operating income of \$55.3 million offset by an operating loss of \$37.5 million in 2026.

Total net position increased by \$209.9 million (16.8%) in 2025. The increase is primarily due to an operating income of \$107.9 million and net investment earnings of \$102.0 million.

Partnership Health Plan of California
Management's Discussion and Analysis
As of and for Years Ended June 30, 2026, 2025, and 2024

KEY OPERATING INDICATORS

The following table compares key operating indicators for the Health Plan for the years ended June 30, 2026, 2025, and 2024:

	2026	2025	2024
MEMBERSHIP			
Member months for the year:			
Medi-Cal program	10,611,574	10,837,561	9,563,314
Total	10,611,574	10,837,561	9,563,314
Average member per month			
Medi-Cal program	884,299	903,130	796,943
Total	884,299	903,130	796,943
OPERATING RESULTS (in thousands)			
Operating revenues	\$ 7,119,116	\$ 6,786,865	\$ 5,640,676
Operating expenses:			
Health care	5,964,424	5,396,098	4,455,620
General and administrative	413,268	354,704	276,630
Premium tax	779,016	928,152	659,356
Total	7,156,708	6,678,954	5,391,606
Operating (deficit) income	\$ (37,592)	\$ 107,911	\$ 249,069
OPERATING RESULTS PER MEMBER PER MONTH			
Operating revenues	\$ 670.9	\$ 626.2	\$ 589.8
Operating expenses:			
Health care	562.1	497.9	465.9
General and administrative	38.9	32.7	28.9
Premium tax	73.4	85.6	68.9
Total	674.4	616.3	563.8
Operating (deficit) income	\$ (3.5)	\$ 10.0	\$ 26.0
RATIOS			
Health care cost as a percentage of operating revenues	83.8%	79.5%	79.0%
General and administrative expense as a percentage of operating revenues	5.8%	5.2%	4.9%
Premium tax as a percentage of operating revenues	10.9%	13.7%	11.7%
Operating (deficit) income as a percentage of operating revenues	(0.5%)	1.6%	4.4%

Partnership Health Plan of California

Management's Discussion and Analysis

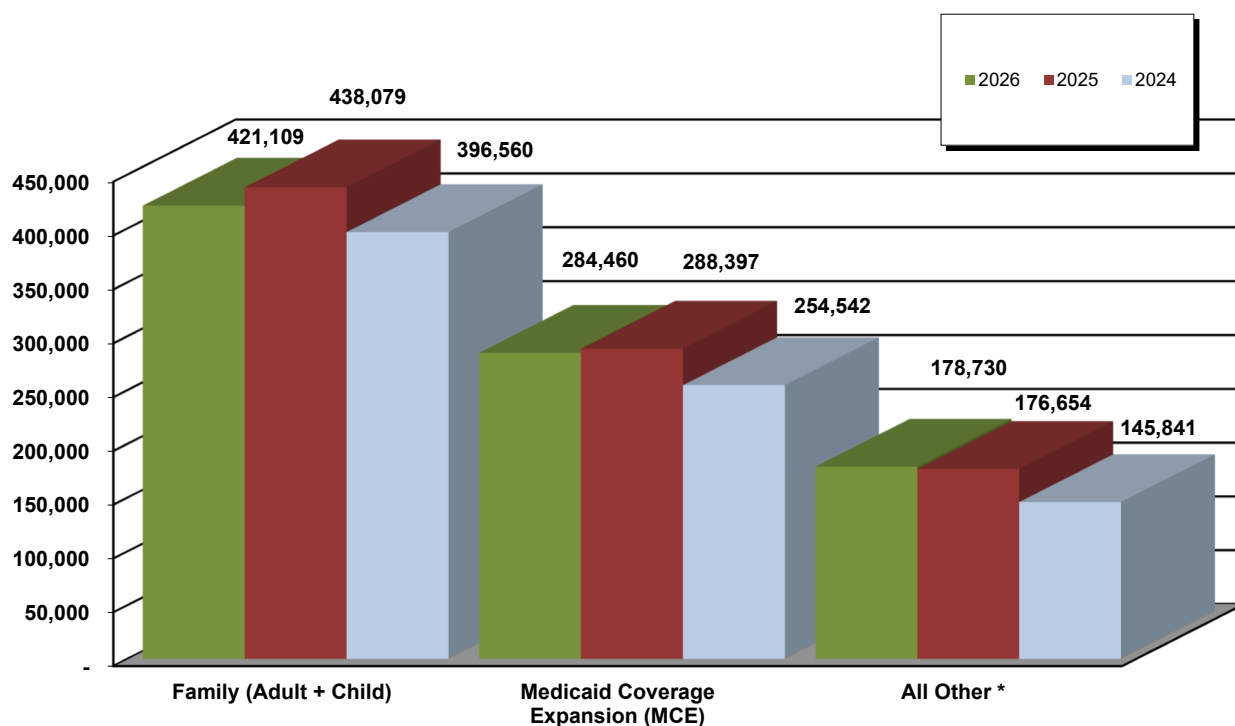
As of and for Years Ended June 30, 2026, 2025, and 2024

ENROLLMENT

During the years ended June 30, 2026, 2025, and 2024, the Health Plan served Medi-Cal members at an average of 884,299, 903,130, and 796,943, respectively, per month. Enrollment from 2025 to 2026 decreased during the year primarily due to the sunset of the federal COVID-19 eligibility flexibilities and California 2025-26 Budget Act changes that resulted in more restrictive eligibility requirements for Seniors and Persons with Disabilities tied to asset test changes and the implementation of a Medi-Cal eligibility freeze for adults who lack satisfactory immigration status.

The following chart displays a comparative view of average monthly membership by Medi-Cal aid category for the years ended June 30, 2026, 2025, and 2024.

Partnership Health Plan of California's Medi-Cal membership by aid category (shown as average member months):



*All Other = Long Term Care (LTC), Seniors and Persons with Disabilities (SPD), Dual LTC-SPD, and Whole Child Model (WCM)

Partnership Health Plan of California

Management's Discussion and Analysis

As of and for Years Ended June 30, 2026, 2025, and 2024

RESULTS OF OPERATIONS

The following table presents the results of operations for the years ended June 30, 2026, 2025, and 2024, and the change from prior year (in thousands):

	2026	2025	Pre-GASB 103* 2024	Change from 2025	
				Amount	Percent
California Department of Health Care Services					
Capitation revenue	\$ 7,098,527	\$ 6,726,490	\$ 5,608,959	\$ 372,037	5.5%
Other income	20,589	60,375	31,717	(39,786)	(65.9%)
Total operating revenues	7,119,116	6,786,865	5,640,676	332,251	4.9%
Fee for service hospital inpatient, physician, and other services	4,854,488	4,322,071	3,404,458	532,417	12.3%
Capitated physician, hospital, and other costs	326,008	289,313	450,573	36,695	12.7%
Long-term care	715,849	690,437	551,122	25,412	3.7%
Quality improvement program and hospital stop loss	68,079	94,277	49,466	(26,198)	(27.8%)
Total health care expenses	5,964,424	5,396,098	4,455,620	568,326	10.5%
Total general and administrative expenses	413,268	354,704	276,630	58,564	16.5%
Premium tax	779,016	928,152	659,356	(149,136)	(16.1%)
Total operating expenses	7,156,708	6,678,954	5,391,606	477,754	7.2%
Operating (deficit) income	(37,592)	107,911	249,069	(145,503)	(134.8%)
Investment income	91,146	102,037	92,127	(10,891)	(10.7%)
Community reinvestments	(35,799)	-	-	(35,799)	0.0%
Total nonoperating revenues (expenses)	55,347	102,037	92,127	(46,690)	(45.8%)
Increase in net position	\$ 17,755	\$ 209,948	\$ 341,196	\$ (192,193)	(91.5%)

*Fiscal year 2024 amounts are presented on the basis originally reported and have not been reclassified to conform to the fiscal year 2026 presentation under GASB Statement No. 103. Accordingly, certain fiscal year 2024 classifications are not directly comparable to fiscal years 2025 and 2026.

OPERATING REVENUES

The Health Plan's total operating revenues increased by \$332.3 million (4.9%) for the year ended June 30, 2026. The increase in operating revenues in 2026 is attributable to an increase in Capitation Revenue of \$372.0 million.

For the year ended June 30, 2025, the Health Plan's total operating revenues increased by \$1.1 billion, or 20.3%, primarily due to 13.3% membership growth, which generated approximately \$1.1 billion in additional revenue. The increase also reflects additional MCO tax revenue retroactive to calendar year 2024 under California Assembly Bill 160.

Partnership Health Plan of California
Management's Discussion and Analysis
As of and for Years Ended June 30, 2026, 2025, and 2024

HEALTH CARE EXPENSES

Overall health care expenses increased by \$568.3 million or 10.5%, totaling \$6.0 billion in 2026, compared to \$5.4 billion in 2025. The Health Plan's health care ratio (health care costs as a percentage of operating revenue) at 83.8% in 2026 increased slightly in comparison to 2025's health care ratio of 79.5%. Note that this ratio is calculated differently than DHCS's methodology, as DHCS calculates its ratios based on service year and excludes any adjustments pertaining to prior service years. Overall increased costs are explained as follows:

- Provider capitation is comprised of capitation payments made to the Health Plan's contracted medical groups, hospitals, physicians, and other health care service providers. Capitation expenses totaled \$326.0 million in 2026 compared to \$289.3 million in 2025, for an increase of \$36.7 million (12.7%), primarily due to capitation increases tied to the DHCS Targeted Rate Increase (TRI) policy.
- Fee for service expenses for hospital, physician, and other services totaled \$4.9 billion in 2026 compared to \$4.3 billion in 2025 due to increased utilization; this also includes Directed Payments and Voluntary Rate Range, which have an offset in DHCS Capitation Revenue. Long-term care fee-for-service expenses increased to \$715.8 million in 2026 from \$690.4 million in 2025; the increase can be attributed to increased utilization offset by prior year adjustments to IBNR.

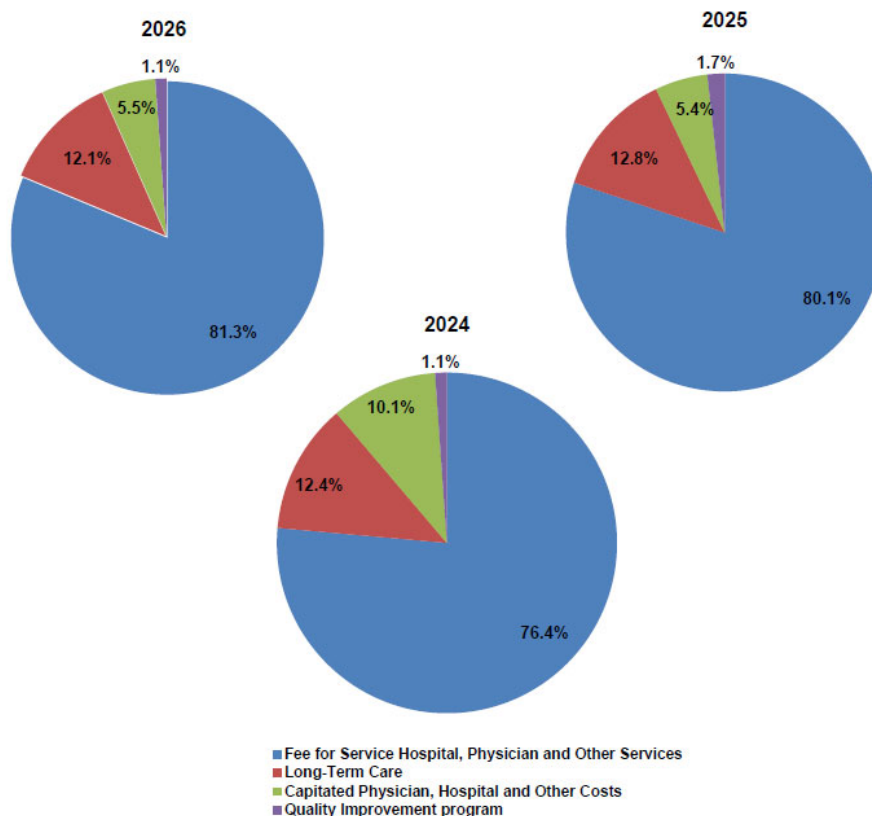
Overall health care expenses increased \$940 million, or 21.1% in 2025, while the health care ratio remained relatively consistent at 79.5%. The increase was primarily driven by higher membership and utilization, which increased fee-for-service and long-term care expenses, partially offset by lower provider capitation following termination of the global sub-capitation agreement effective January 2024. Quality Improvement Program expenses also increased due to increased provider participation.

Partnership Health Plan of California

Management's Discussion and Analysis

As of and for Years Ended June 30, 2026, 2025, and 2024

The following charts show a comparison of health care expenses by major category and their respective percentages of the overall health care expenditures for the years ended June 30, 2026, 2025, and 2024:



GENERAL AND ADMINISTRATIVE EXPENSES AND PREMIUM TAX EXPENSE

Total general and administrative expenses were \$413.3 million in 2026, compared to \$354.7 million in 2025. Overall administrative expenses increased by 16.5% or \$58.6 million. This increase is due to the increased staffing continuing from servicing the expansion counties and the fulfilling of additional DHCS contractual requirements. The Health Plan's administrative expenses as a percentage of operating of revenues were 5.8% in 2026 and 5.2% in 2025; the increase in revenue, which also affects the calculation of this ratio, is addressed in the Operating Revenues section. The Health Plan's premium tax expense for the years ended June 30, 2026 and 2025 was \$779.0 million and \$928.2 million, respectively.

General and administrative expenses increased \$78.1 million, or 28.2% in 2025, primarily due to increased staffing related to county expansion and additional 2024 DHCS contract requirements.

Partnership Health Plan of California
Management's Discussion and Analysis
As of and for Years Ended June 30, 2026, 2025, and 2024

NONOPERATING REVENUES (EXPENSES)

Nonoperating revenues consist of net investment income of \$91.1 million in 2026 compared to \$102.0 million in 2025; this decrease is due to lower interest rates in comparison to the previous year. Nonoperating expenses consist of accruals for Community Reinvestments of \$35.8 million in 2026 for calendar year 2024 and 2025; there were no accruals recorded in the previous year.

Nonoperating revenues for fiscal year 2025, consisted of net investment income and increased by \$9.9 million due to higher interest rates resulting in greater interest income.

LIQUIDITY

As of June 30, 2026, working capital (current assets in excess of current liabilities) remained comparable at \$1.3 billion, with a slight overall increase of \$7.2 million.

As of June 30, 2025, working capital increased by \$719.8 billion primarily from the year's operating income.

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

At June 30, 2026, the Health Plan had approximately \$195.4 million in capital assets, net of accumulated depreciation and amortization, compared with \$174.5 million at June 30, 2025, which is an increase of approximately \$20.9 million. During fiscal year 2026, the Health Plan recorded approximately \$40.4 million of capital asset additions, consisting primarily of \$24.6 million of subscription assets and \$14.9 million of capital projects. Capital projects totaled approximately \$61.8 million at June 30, 2026. Depreciation expense and accumulated depreciation related to capital asset activity totaled approximately \$19.5 million during fiscal year 2026. Additional information regarding the Health Plan's capital assets is presented in Note 4 to the financial statements.

During fiscal year 2026, the Health Plan entered into additional subscription-based information technology arrangements. Subscription liabilities increased from approximately \$2.7 million at June 30, 2025, to \$18.6 million at June 30, 2026, reflecting approximately \$26.9 million of additions and \$11.0 million of payments during the year. The Health Plan's subscription arrangements extend through fiscal year 2030. Additional information regarding these arrangements and related future payment requirements is presented in Note 8 to the financial statements.

Partnership Health Plan of California
Management's Discussion and Analysis
As of and for Years Ended June 30, 2026, 2025, and 2024

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

ECONOMIC FACTORS AND FISCAL YEAR 2027 BUDGET

As the State addresses budgetary and regulatory changes within the Medi-Cal program, the Health Plan anticipates continued efforts by DHCS to promote cost-effective managed care while maintaining access to services for members. The State budget includes several Medi-Cal program changes that may affect enrollment, funding, and operations, including the transition of certain Unsatisfactory Immigration Status (UIS) members from managed care to fee-for-service, revised eligibility requirements and asset limits, modifications to Enhanced Care Management and Community Supports programs, and changes to MCO tax structures and directed payment programs. The state's budgetary pressures were amplified after the comprehensive federal reconciliation bill enacted on July 4, 2025 (HR 1), imposed federal restrictions on Medicaid eligibility and financing. While the State's fiscal year 2026-27 budget remains balanced, ongoing fiscal pressures within Medi-Cal and uncertainty surrounding future federal funding and regulatory changes are expected to affect plan enrollment, revenue, and operations.

The Health Plan is currently projecting a net loss of \$66.9 million for fiscal year 2026-27. This budget reflects anticipated enrollment declines associated with State and federal eligibility changes, including provisions enacted under HR 1 as well as ongoing uncertainty related to future Medi-Cal funding and reimbursement methodologies. While overall membership is projected to decrease, the Health Plan expects the remaining membership population to exhibit higher health care needs and utilization. Given the evolving regulatory environment and uncertainty surrounding enrollment, revenue adequacy, and program funding, management will continue to monitor developments and may revise budget assumptions as significant new information becomes available. The Health Plan remains focused on maintaining sufficient reserves and financial flexibility to support operations and continue serving its members.

Partnership Health Plan of California

Management's Discussion and Analysis

As of and for Years Ended June 30, 2026, 2025, and 2024

FIDUCIARY MD&A

OVERVIEW OF THE FIDUCIARY FINANCIAL STATEMENTS

Effective May 1, 2001, the Health Plan's Board of Commissioners approved and adopted a tax-qualified governmental SERP for the benefit of certain eligible employees. The SERP is a single employer defined benefit pension plan administered by the Health Plan. The SERP provides retirement, disability, and death benefits to plan members and their beneficiaries. With respect to plan members and their beneficiaries under the trust created pursuant to this plan, the trust assets are not to be used for, or diverted to, purposes other than the exclusive benefit of the plan members or their beneficiaries, as prescribed in Section 401(a)(2) of the Internal Revenue Code of 1986.

The basic financial statements present information about the SERP's fiduciary net position and changes in fiduciary net position for the respective years. The basic financial statements also include notes that explain certain information presented in the financial statements and provide additional detail.

The statement of fiduciary net position presents the assets and liabilities and resulting fiduciary net position of the SERP as of the end of each fiscal year. Investments are reported at fair value.

The statement of changes in fiduciary net position reflects employer contributions and investment income, net of investment expenses, less benefits paid.

FINANCIAL SUMMARY

The table below is a summarized comparison of the assets, liabilities and fiduciary net position of the Partnership Health Plan of California Retirement Plan Fund as of June 30, and the changes in fiduciary net position for the years ended June 30:

	2026	2025	2024	Change from 2025	
				Amount	Percent
ASSETS					
Cash and cash equivalents	\$ 472,508	\$ 437,751	\$ 570,894	\$ 34,757	7.9%
Investments, at fair value	27,300,390	23,701,628	20,209,663	3,598,762	15.2%
NET POSITION RESTRICTED FOR PENSION	<u>\$ 27,772,898</u>	<u>\$ 24,139,379</u>	<u>\$ 20,780,557</u>	<u>\$ 3,633,519</u>	<u>15.1%</u>
ADDITIONS					
Investment income	\$ 3,743,399	\$ 2,568,936	\$ 1,888,822	\$ 1,174,463	45.7%
Contributions	1,120,886	2,167,797	1,673,720	(1,046,911)	-48.3%
Total additions, net	4,864,285	4,736,733	3,562,542	127,552	2.7%
DEDUCTIONS					
Deductions	1,230,766	1,377,911	1,239,422	(147,145)	-10.7%
INCREASE IN NET POSITION RESTRICTED FOR PENSION	<u>\$ 3,633,519</u>	<u>\$ 3,358,822</u>	<u>\$ 2,323,120</u>	<u>\$ 274,697</u>	<u>8.2%</u>

Total fiduciary fund net position as of June 30, 2026, increased by \$3.6 million from June 30, 2025, due to plan contributions and a net investment gain for the year ended June 30, 2026.

Partnership Health Plan of California
Management's Discussion and Analysis
As of and for Years Ended June 30, 2026, 2025, and 2024

DETAILED ANALYSIS

Net position restricted for pension benefits increased by \$3.6 million, or 15.1%, from \$24.1 million at June 30, 2025 to \$27.7 million at June 30, 2026. Investments increased from \$23.7 million to \$27.3 million, primarily as a result of investment returns during the year. Cash and cash equivalents increased from \$0.44 million to \$0.47 million due to timing.

During the year ended June 30, 2026, investment income increased by \$1.1 million, from \$3.7 million compared with \$2.6 million in 2025. The increase in investment income was due to positive returns in global security markets and increased returns on the Health Plan's investments. Employer contributions decreased by \$1.1 million, from \$2.2 million compared with \$1.1 million in 2026. Benefit payments decreased by \$0.2 million, from \$1.4 million compared with \$1.2 million in 2026, due to certain participants' fixed payments concluding in 2026.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS – FIDUCIARY FUND

At present, there are no known facts or conditions that are expected to have a significant effect on the fiduciary financial position or results of operations.

Report of Independent Auditors

The Commissioners
Partnership Health Plan of California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of Partnership Health Plan of California as of and for the years ended June 30, 2026 and 2025, and the related notes to the financial statements, which collectively comprise Partnership Health Plan of California's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of Partnership Health Plan of California as of June 30, 2026 and 2025, and the respective changes in net position and 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 Partnership Health Plan of California 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 Partnership Health Plan of California's ability to continue as a going concern for 12 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 Partnership Health Plan of California'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 Partnership Health Plan of California'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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 12 and the supplementary schedule of changes in the net pension asset and related ratios, supplementary schedule of contributions, and supplementary schedule of investment returns on pages 45 through 47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise Partnership Health Plan of California's basic financial statements. The statement of revenues, expenses, and changes in net position – actual and budget operations on page 43 presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statement of revenues, expenses, and changes in net position – actual and budget operations is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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.

San Francisco, California

October __, 2026

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Financial Statements

Partnership Health Plan of California
Statements of Net Position
June 30, 2026 and 2025

	2026	2025
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,220,943,398	\$ 2,102,410,214
California Department of Health Care Services receivable	1,786,808,774	1,754,909,555
Other receivables	18,615,857	59,517,832
Lease receivable, current portion	2,172,312	1,787,733
Other current assets	14,610,106	12,082,273
Total current assets	4,043,150,447	3,930,707,607
CAPITAL ASSETS		
Nondepreciable	73,119,412	64,265,138
Depreciable, net of accumulated depreciation and amortization	95,622,676	96,597,473
Total capital assets	168,742,088	160,862,611
OTHER ASSETS	1,144,321	1,208,715
NET PENSION ASSET	8,186,907	5,714,523
LEASE RECEIVABLE, net of current portion	7,998,022	4,458,135
SUBSCRIPTION ASSET, net of amortization	26,619,205	13,609,573
Total assets	4,255,840,990	4,116,561,164
DEFERRED OUTFLOWS OF RESOURCES	2,500,051	2,745,009
Total assets and deferred outflows	\$ 4,258,341,041	\$ 4,119,306,173
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,056,305,919	\$ 1,928,779,172
Payable to the State of California	32,633,113	32,633,113
Accrued claims payable	615,153,263	613,302,417
Quality improvement program	55,477,765	79,609,869
Total current liabilities	2,759,570,060	2,654,324,571
SUBSCRIPTION LIABILITIES, net of current portion	10,886,509	773,753
Total liabilities	2,770,456,569	2,655,098,324
DEFERRED INFLOWS OF RESOURCES	12,579,067	6,657,637
NET POSITION		
Net investment in capital assets	176,804,858	171,794,200
Restricted	300,000	300,000
Unrestricted	1,298,200,547	1,285,456,012
Total net position	1,475,305,405	1,457,550,212
Total liabilities, deferred inflows, and net position	\$ 4,258,341,041	\$ 4,119,306,173

See accompanying notes.

Partnership Health Plan of California
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2026 and 2025

	2026	2025
OPERATING REVENUES		
California Department of Health Care Services revenue	\$ 7,098,527,211	\$ 6,726,489,726
Other income	20,588,686	60,374,586
Total operating revenues	7,119,115,897	6,786,864,312
OPERATING EXPENSES		
Health care expenses		
Fee for service hospital, physician, and other services	4,854,487,624	4,322,070,846
Capitated physician, hospital, and other costs	326,007,748	289,312,950
Long-term care	715,849,280	690,437,321
Quality improvement program and hospital stop loss	68,078,522	94,276,506
Total health care expenses	5,964,423,174	5,396,097,623
General and administrative expenses	413,268,132	354,703,986
Premium tax	779,016,409	928,152,119
Total operating expenses	7,156,707,715	6,678,953,728
Operating (deficit) income	(37,591,818)	107,910,584
NONOPERATING REVENUES (EXPENSES)		
Investment income	91,145,523	102,036,918
Community reinvestments	(35,798,512)	-
Total nonoperating revenues	55,347,011	102,036,918
INCREASE IN NET POSITION	17,755,193	209,947,502
NET POSITION, beginning of year	1,457,550,212	1,247,602,710
NET POSITION, end of year	\$ 1,475,305,405	\$ 1,457,550,212

See accompanying notes.

Partnership Health Plan of California
Statements of Cash Flows
Years Ended June 30, 2026 and 2025

	2026	2025
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from California Department of Health Care Services	\$ 7,128,890,520	\$ 6,484,893,942
Other income	3,011,824	36,526,744
Cash payments to providers for Medi-Cal members		
Capitation payments	(247,603,981)	(294,022,700)
Medical claims payments	(5,713,687,350)	(5,325,298,755)
Cash payments to vendors	(868,330,521)	(946,048,635)
Cash payments for salaries, wages, and related benefits	(248,294,887)	(209,506,197)
Net cash provided by (used in) operating activities	53,985,605	(253,455,601)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on subscription liabilities	(11,036,205)	(6,282,390)
Purchases of capital assets	(15,810,438)	(34,928,854)
Net cash used in capital and related financing activities	(26,846,643)	(41,211,244)
CASH FLOWS FROM INVESTING ACTIVITY		
Interest and dividends on investments	91,394,222	101,936,112
Net cash provided by investing activity	91,394,222	101,936,112
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	118,533,184	(192,730,733)
CASH AND CASH EQUIVALENTS, beginning of year	2,102,410,214	2,295,140,947
CASH AND CASH EQUIVALENTS, end of year	\$ 2,220,943,398	\$ 2,102,410,214

See accompanying notes.

Partnership Health Plan of California
Statements of Cash Flows
Years Ended June 30, 2026 and 2025

	2026	2025
RECONCILIATION OF OPERATING (DEFICIT) INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
Operating (deficit) income	\$ (37,591,818)	\$ 107,910,584
Adjustment to reconcile operating (deficit) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,506,320	14,440,898
Changes in operating assets and liabilities		
California Department of Health Care Services receivable	(31,899,220)	(562,755,458)
Other receivables	22,554,753	(26,205,043)
Lease receivables	3,924,466	1,456,244
Subscription assets/liabilities	10,249,590	(2,873,417)
Other assets	(55,963,898)	(5,145,840)
Net pension asset	2,472,384	(2,880,300)
Accounts payable and accrued expenses	143,014,286	504,951,952
Accrued claims payable	1,850,846	(272,715,010)
Quality improvement program	(24,132,104)	(9,640,211)
Net cash provided by (used in) operating activities	<u>\$ 53,985,605</u>	<u>\$ (253,455,601)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for premium tax	753,500,000	\$ 816,406,250

See accompanying notes.

Partnership Health Plan of California
Partnership Health Plan of California Supplemental Executive Retirement Plan –
Statements of Fiduciary Net Position
Years Ended June 30, 2026 and 2025

	<u>2026</u>	<u>2025</u>
ASSETS		
Cash and cash equivalents	\$ 472,508	\$ 437,751
Investments, at fair value		
Mutual funds	<u>27,300,390</u>	<u>23,701,628</u>
Total investments, at fair value	<u>27,300,390</u>	<u>23,701,628</u>
Total assets	<u>\$ 27,772,898</u>	<u>\$ 24,139,379</u>
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 27,772,898</u>	<u>\$ 24,139,379</u>

See accompanying notes.

Partnership Health Plan of California
Partnership Health Plan of California Supplemental Executive Retirement Plan –
Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2026 and 2025

	2026	2025
ADDITIONS		
Contributions		
Member contributions	\$ 323,173	\$ 301,536
Employer contributions	797,713	1,866,261
Total contributions	1,120,886	2,167,797
Investment income	3,743,399	2,568,936
Total additions	4,864,285	4,736,733
DEDUCTIONS		
Benefits paid to participants	(1,142,453)	(1,297,080)
Administrative expenses	(88,313)	(80,831)
Total deductions	(1,230,766)	(1,377,911)
INCREASE IN NET POSITION	3,633,519	3,358,822
NET POSITION RESTRICTED FOR PENSION, beginning of year	24,139,379	20,780,557
NET POSITION RESTRICTED FOR PENSION, end of year	\$ 27,772,898	\$ 24,139,379

See accompanying notes.

Partnership Health Plan of California

Notes to Financial Statements

Note 1 – Organization

The Health Plan was formed as a health insurance organization and is legally a subdivision of the State of California but is not part of any city, county, or state government system. The Health Plan is a combined public and private effort engaged principally in providing a more cost-effective method of health care. The HealthPlan began serving Medi-Cal eligible persons in Solano County in May 1994. That was followed by expansion into additional counties in March 1998, March 2001, October 2009, July 2011, September 2013, and January 2024. As of today, the HealthPlan serves members in 24 counties.

The Health Plan has quasi-independent political jurisdiction to contract with the DHCS to receive Medi-Cal funding to provide health care benefits to eligible members (the Contract). The Health Plan has contracted with various health care providers to provide or arrange hospital and medical services for its members who reside in various Northern California counties. Provider agreements are typically evergreen or for a multi-year period and contain quality performance measures.

Beginning January 1, 2022, DHCS began implementing California Advancing and Innovating Medi-Cal (CalAIM) to modernize the State of California's Medi-Cal Program. CalAIM focuses on a whole-system, person-centered strategy that focuses on wellness and prevention, including assessments of each enrollee's health risks and health-related social needs, and provide care management and care transitions across delivery systems and settings.

As a public agency, the Health Plan is exempt from state and federal income taxes.

Note 2 – Summary of Significant Accounting Policies

Accounting standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Health Plan's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989.

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

Cash and cash equivalents – Cash and cash equivalents consist of demand deposits, investments in the State Treasurer's Local Agency Investment Fund (LAIF), and other short-term, highly liquid securities with original maturities of three months or less.

Other assets – Other assets consist of prepaid expenses and investments in certificates of deposit. The investments in certificates of deposit are stated at fair market value as determined by quoted market prices, with any changes in the fair value of investments included in net investment and interest income reported in the statements of revenues, expenses, and changes in net position.

Partnership Health Plan of California

Notes to Financial Statements

Leases – The Health Plan recognizes lease contracts or equivalents that have a term exceeding one year and the cumulative future receipts on the contract exceed \$10,000 that meet the definition of an other than short-term lease. The Health Plan uses the same interest rate it charges to the lessee or the rate that is implicit in the contract as the discount rate. Short-term lease receipts and variable lease receipts not included in the measurement of the lease receivable are recognized as income when earned.

Capital assets – Capital assets whose costs are greater than or equal to \$10,000 are recorded at cost. Depreciation ranging from three (3) to thirty-nine (39) years is computed using the straight-line method over the estimated useful lives. Leasehold improvements are amortized over the lesser of the term of the related lease or their estimated useful life. The costs of normal maintenance, repairs, and minor replacements are charged to expense when incurred.

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

Subscription assets – The Health Plan has recorded subscription assets, in accordance with GASB Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements* (SBITA), and are initially measured at an amount equal to the initial measurement of the related subscription liability plus any contract payments made to the SBITA vendor at the commencement of the subscription term, capitalizable initial implementation cost, less any incentive payments received from the SBITA vendor at the commencement of the subscription term. The subscription assets are amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying assets.

Subscription liabilities – The Health Plan entered into various agreements for information technology (IT) subscriptions. These agreements range in terms up to year 2030. In fiscal year 2026, the total subscription payments were \$11,036,205. Variable payments based upon the use of the underlying IT asset that are not fixed in substance are not included in subscription assets or subscription liabilities. There were no variable subscription expenses and payments in fiscal years ended June 30, 2026 and 2025. The Health Plan is in the process of entering into additional subscription agreements that have yet to commence as of June 30, 2026.

The Health Plan recognizes contracts or equivalents that have a term exceeding one year with cumulative future payments on the contract exceeding \$100,000 that meet the definition of an other than short-term lease. The Health Plan uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the Health Plan's incremental borrowing rate at start of the lease for a similar asset type and term length to the contract. Short-term lease payments are expensed when incurred.

Quality improvement program – Quality improvement program pools are calculated based contractual terms and expected provider performance under the applicable quality incentive programs. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of quality improvement programs is dependent on final measurement results, management is of the opinion that the related accruals are adequate to cover such estimates.

Partnership Health Plan of California

Notes to Financial Statements

Accounts payable and accrued expenses – Accounts payable and accrued expenses include accruals of \$1,217,001,920 and \$1,162,441,719 for Hospital Directed Payments, \$363,858,083 and \$343,132,871 for Voluntary Rate Range, and \$294,743,235 and \$269,226,826 for MCO Tax as of June 30, 2026 and 2025, respectively. These liability accruals have corresponding offsets in current assets. Accounts payable and accrued expenses also include accruals for Community Reinvestments.

- **Directed Payments** – Directed payments are a regulatory mechanism established under 42 C.F.R. § 438.6(c), allowing states to implement delivery system and provider payment initiatives within Medicaid Managed Care Plan (MCP) contracts. These payments are part of CMS's modernization of Medicaid managed care regulations and are intended to support delivery system reform while maintaining actuarial soundness.
- **Voluntary Rate Range** – The Voluntary Rate Range Program, authorized by Welfare and Institutions (W&I) Code sections 14164 and 14301.4, provides a mechanism for funding the non-federal share of the difference between the lower and upper bounds of a MCP's actuarially sound rate range, as determined by the DHCS. Governmental funding entities eligible to transfer the non-federal share are defined as counties, cities, special purpose districts, state university teaching hospitals, and other political subdivisions of the state, pursuant to W&I Code section 14164(a). These governmental funding entities may voluntarily transfer funds to DHCS via intergovernmental transfer (IGT). These voluntary IGTs, together with the applicable Federal Financial Participation, are used to fund payments by DHCS to MCPs as part of the capitation rates.
- **Community Reinvestments** – Effective January 1, 2024, the DHCS implemented the Community Reinvestment policy which mandates MCPs to contribute a minimum percentage of net income to defined Community Reinvestment categories. Beginning in calendar year 2024, the Health Plan is subject to the state-mandated Community Reinvestment policy requirements exclusively during program periods where the net position, as calculated under the state-defined methodology, is positive. The Community Reinvestment Program is intended to improve the health and well-being of the Medi-Cal members through innovations that are locally driven. Expenses for Community Reinvestments are reported in the Nonoperating section of the Statement of Revenues, Expenses, and Changes in Net Position.

Partnership Health Plan of California

Notes to Financial Statements

Net position – Net position is classified as invested in capital assets, restricted, or unrestricted. Invested in capital assets represents investments in motor vehicles, equipment, furniture, leasehold improvements, buildings and building improvements net of depreciation, land, and capital projects at cost. The restricted net position to meet minimum tangible net equity requirements under Knox-Keene, which represent the total cash balances that are restricted as to their use, was \$300,000 as of June 30, 2026 and 2025. Unrestricted net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets.” Designated funds remain under the control of the Board of Commissioners, which at its discretion later, may use the funds for other purposes. Current amounts are addressed through the budget process and includes Board approved capital and infrastructure purchases as well as an estimate for the State Financial Performance Guarantee based on state contractual requirements. Management estimated the total designated reserve to be \$1,269,276,795 and \$1,184,801,278 as of June 30, 2026 and 2025, respectively. Determination of actions to take place in situations where the Board Designated reserve balance falls below or goes above the calculated amount will be addressed by recommendation of the Executive Management team and the Finance Committee and authorized by the Board.

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

Revenues – Medi-Cal capitation revenue under the Contract is based on the monthly capitation rates, as provided for in the Contract, and the actual number of Medi-Cal eligible members. Eligibility of beneficiaries is determined by each respective county’s Department of Human Services and validated by DHCS. DHCS provides the Health Plan the validated monthly eligibility file of program beneficiaries who are continuing, newly added, or terminated from the program in support of capitation revenue for the respective month.

Capitation revenues are paid by the DHCS on a monthly basis in arrears based on estimated membership. Payments include retrospective adjustments that are reconciled monthly by DHCS. As such, capitation revenue includes an estimate for amounts receivable from or refundable to DHCS for these retrospective adjustments. These estimates are continually monitored and adjusted, as necessary, as experience develops, or new information becomes known.

Effective January 1, 2024, the Health Plan became subject to the DHCS medical loss ratio requirements for the Adult Expansion Population established under the Affordable Care Act (ACA). Under these requirements, the Health Plan was required to maintain a minimum MLR of 85% based on the allowable incurred medical expenses, as defined by DHCS, for the period January 1, 2014, through June 30, 2015, and for fiscal years 2016 and 2017. As of June 30, 2026, the Health Plan recorded an estimated liability of \$32,633,133 related to this obligation, which is reflected in payable to the State of California.

Partnership Health Plan of California

Notes to Financial Statements

Premium deficiencies – The Health Plan performs periodic analyses of its expected future medical expenses and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency reserve is recorded. Management determined that no premium deficiency reserves were needed at June 30, 2026 and 2025.

Health care expenses – Hospital, physician, and other service costs are based on actual paid claims plus an estimate for accrued incurred, but not reported, claims. Claims are paid primarily on a discounted fee-for-service basis. PCPs and certain hospitals are compensated primarily on a capitation basis with provisions for other ancillary services as well as additional incentive payments in certain circumstances.

Premium tax – Effective April 1, 2023, a revised Medi-Cal Managed Care Organizations (MCO) provider tax was established and is in effect through December 31, 2026. Under HR 1 new federal mandates impose federal restrictions on future MCO tax revenue structures that support the Medi-Cal program. These changes require reassessment by DHCS of the MCO payment structure to ensure compliance with federal guidelines. Premium tax expense for the years ended June 30, 2026 and 2025, was \$779,016,409 and \$928,152,119, respectively.

Pension – For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Health Plan's SERP and additions to/deductions from the SERP's fiduciary net position have been determined on the same basis as they are reported by the SERP. 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.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of risk – Financial instruments potentially subjecting the Health Plan to concentrations of risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance thresholds. The Health Plan maintains its cash in bank deposit accounts, which, at times, may exceed FDIC insurance thresholds. The Health Plan believes no significant concentration of credit risk exists with these cash accounts. Management assesses the financial ability of these financial institutions periodically. At June 30, 2026 and 2025, the Health Plan had cash and deposits with four (4) financial institutions. Cash deposits had carrying amounts of \$2,221,243,398 and \$2,102,410,214, respectively, and bank balances of \$2,366,197,571 and \$2,243,234,988, respectively. Of the bank balances at June 30, 2026 and 2025, \$207,032,947 and \$201,041,771, respectively, were not covered by federal depository insurance.

The Health Plan is highly dependent upon the State of California for its revenues. All accounts receivable and substantially all revenues are from the State of California. Loss of the contracts with the State of California due to nonrenewal or legislative decisions that impact program funding or result in discontinuation could materially affect the financial position of the Health Plan.

Partnership Health Plan of California

Notes to Financial Statements

Recent accounting pronouncements – In May 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This Statement modifies the basic financial statements and MD&A to enhance governmental financial reports. Changes include revisions to MD&A, modifications to proprietary fund statements, elimination of separate extraordinary and special item presentations, and changes to budgetary comparison information. The adoption resulted in changes to certain financial statement presentation and disclosures but did not have a material impact on the amounts reported in the financial statements.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, effective for reporting periods beginning after June 15, 2025, provides guidance requiring certain types of capital assets to be disclosed separately in the capital assets note disclosures. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information about certain types of capital assets to make informed decisions and assess accountability. Additionally, the disclosure requirements will improve consistency and comparability between governments. The Health Plan adopted the standard effective July 1, 2025, and the adoption had no material impact on the financial statements.

In December 2025, GASB issued Statement No. 105, *Subsequent Events* (GASB 105). The objective of GASB 105 is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. GASB 105 is effective for fiscal years beginning after June 15, 2026. Management is currently evaluating the impact of the adoption of GASB 105 on its financial statements.

Reclassifications – Certain reclassifications of prior years' balances have been made to conform with the current year presentations. Such reclassifications did not affect the total increase in net position or total current or noncurrent assets or liabilities.

Note 3 – Cash and Investments

Cash and investments as of June 30 consisted of the following:

	2026	2025
Cash on hand	\$ 3,300	\$ 3,300
Cash deposits	2,015,226,813	1,904,719,595
Cash equivalents	205,713,285	197,687,319
Certificates of deposit	300,000	300,000
Total cash and investments	<u>\$ 2,221,243,398</u>	<u>\$ 2,102,710,214</u>

The investments balance consisting of certificates of deposit of \$300,000 as of June 30, 2026 and 2025, are included in other assets in the statements of net position, and relate to the Health Plan's Knox-Keene reserve requirement.

Partnership Health Plan of California

Notes to Financial Statements

The Health Plan's Annual Investment Policy (Policy) sets forth the guidelines for the investment of all operating funds. The Policy conforms to the California Investment Code Section 53646 (Code) as well as customary standards of prudent investment management. The objectives of the Health Plan's investment policy, in order of priority, are safety of principal, maintenance of liquidity, and attainment of a market rate return that considers risk constraints and cash flow requirements.

The table below identifies the investment types that are authorized for the Health Plan. The table also identifies certain provisions that address interest rate risk, credit risk, and concentrations of risk.

Investment Type	Maximum Remaining Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirements	Government Code Sections
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations: CA and Others	5 years	None	None	53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40%	None	53601(g)
Commercial Paper: Nonpooled Funds	270 days or less	25% of the agency's money	Highest letter and number rating by an NRSRO	53601(h)(2)(c)
Commercial Paper: Pooled Funds	270 days or less	40% of the agency's money	Highest letter and number rating by an NRSRO	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30%	None	53601(i)
Nonnegotiable Certificates of Deposit	5 years	None	None	53630 et seq. 53601.8 and 53635.8
Placement Service Deposits	5 years	30%	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	30%	None	53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None	53601(j)
Medium-term Notes	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple	53601(l) and 53601.6(b)
Collateralized Bank Deposits	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-through and Asset Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund	N/A	None	None	16340
Supranational Obligations	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Health Plan will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Code requires financial institutions to secure deposits made by public agencies by pledging securities in an undivided collateral pool held by a depository regulated under State law. As of June 30, 2026 and 2025, uninsured deposits exposed to custodial credit risk that have been collateralized by the pledging bank was \$2,375,081,087 and \$2,246,412,539, respectively. The uninsured balances are collateralized in accordance with state law, which requires qualifying securities to be pledged at 110% of the uninsured balances.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Health Plan will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2026 and 2025, the Health Plan did not hold investments exposed to custodial credit risk.

Partnership Health Plan of California

Notes to Financial Statements

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Health Plan manages the risk of market value fluctuations due to overall changes in the general level of interest rates by limiting weighted average maturity of its portfolio to no more than five years. The weighted average maturity in years for the Health Plan's investment as of June 30 was as follows:

Investment Type	June 30, 2026		June 30, 2025	
	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 300,000	4.58	\$ 300,000	4.58
Total fair value	<u>\$ 300,000</u>		<u>\$ 300,000</u>	

Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code or the Health Plan's investment policy and the actual rating as of year end for each investment type (where applicable).

Rating as of June 30, 2026:

Investment Type	Fair Value	A-1
Certificates of deposit	\$ 300,000	\$ 300,000
Total fair value	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Rating as of June 30, 2025:

Investment Type	Fair Value	A-1
Certificates of deposit	\$ 300,000	\$ 300,000
Total fair value	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Concentration of credit risk – The investment policy of the Health Plan contains certain limitations on the amount that can be invested in any one issuer, which are stated in the previous table. There were no investments and cash equivalents that are included in cash and cash equivalents in the statements of net position that represent 5% or more of the Health Plan's total investments and cash equivalents as of June 30, 2026 and 2025.

Partnership Health Plan of California

Notes to Financial Statements

Note 4 – Capital Assets, including Subscription Assets

A summary of changes in capital assets for the years ended June 30, 2026 and 2025, is as follows:

	Beginning Balance 2026	Increases	Decreases	Transfers/Reclass	Ending Balance 2026
Motor vehicles	\$ 931,068	\$ 221,497	\$ (107,201)	\$ -	\$ 1,045,364
Equipment	29,376,853	246,690	-	2,597,120	32,220,663
Furniture	7,124,959	-	-	576,768	7,701,727
Leasehold improvements	124,288	-	-	-	124,288
Land	7,619,203	-	-	3,711,235	11,330,438
Building	83,185,783	-	-	(3,711,235)	79,474,548
Building improvements	39,870,303	417,969	-	6,607,355	46,895,627
Capital projects	56,645,935	14,924,282	-	(9,781,243)	61,788,974
Subscription assets	24,825,615	24,614,670	(4,252,324)	-	45,187,961
Total capital assets	249,704,007	40,425,108	(4,359,525)	-	285,769,590
Less: depreciation expense and accumulated depreciation related to disposals	(75,231,823)	(19,506,320)	4,329,846	-	(90,408,297)
Capital assets, net of accumulated depreciation	<u>\$ 174,472,184</u>	<u>\$ 20,918,788</u>	<u>\$ (29,679)</u>	<u>\$ -</u>	<u>\$ 195,361,293</u>

	Beginning Balance 2025	Increases	Decreases	Transfers/Reclass	Ending Balance 2025
Motor vehicles	\$ 462,112	\$ 468,956	\$ -	\$ -	\$ 931,068
Equipment	27,571,628	1,739,222	-	66,003	29,376,853
Furniture	7,015,882	92,761	-	16,316	7,124,959
Leasehold improvements	124,288	-	-	-	124,288
Land	6,767,292	851,911	-	-	7,619,203
Building	67,971,845	15,213,938	-	-	83,185,783
Building improvements	39,624,165	64,600	-	181,538	39,870,303
Capital projects	40,412,326	16,497,466	-	(263,857)	56,645,935
Subscription assets	22,025,422	2,800,193	-	-	24,825,615
Total capital assets	211,974,960	37,729,047	-	-	249,704,007
Less: depreciation expense and accumulated depreciation related to disposals	(60,790,925)	(14,440,898)	-	-	(75,231,823)
Capital assets, net of accumulated depreciation	<u>\$ 151,184,035</u>	<u>\$ 23,288,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,472,184</u>

Reconciliation of capital assets and subscription assets to statements of net position:

	2026	2025
Capital assets, net	\$ 168,742,088	\$ 160,862,611
Subscription assets, net	<u>26,619,205</u>	<u>13,609,573</u>
Total	<u>\$ 195,361,293</u>	<u>\$ 174,472,184</u>

The majority of the costs in capital projects are primarily tied to the forthcoming new claims and authorization system implementations. As of June 30, 2026 and 2025, approximately \$50.1 million and \$45.4 million, respectively, of the \$61.8 million and \$56.6 million capital projects balances relate to the development of the Health Plan's new claims and authorization systems, which are multi-year technology projects that remain in progress. Depreciation and amortization expense, related to capital assets other than subscription assets, included in general and administrative expenses were \$7,901,282 and \$7,565,076 for the years ended June 30, 2026 and 2025, respectively. Amortization expense, related to subscription assets, included in general and administrative expenses were \$11,605,038 and \$6,875,822 for the years ended June 30, 2026 and 2025, respectively.

Partnership Health Plan of California

Notes to Financial Statements

The Health Plan evaluated the capital assets for impairment and determined there was no impairment for the years ended June 30, 2026 and 2025.

Note 5 – Accrued Claims Payable

The cost of health care services is recognized in the period in which it is provided and includes an estimate of the cost of services that have been incurred but not yet reported.

The Health Plan estimates accrued claims payable based on historical claims payments and other relevant information. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims paid is dependent on future developments, management is of the opinion that the accrued claims payable is adequate.

Below is a reconciliation of accrued claims payable liability for the years ended June 30:

	2026	2025
Beginning balance	\$ 613,302,417	\$ 886,017,427
Incurred	4,658,869,543	4,141,135,367
Paid	<u>(4,657,018,697)</u>	<u>(4,413,850,377)</u>
Ending balance	<u><u>\$ 615,153,263</u></u>	<u><u>\$ 613,302,417</u></u>

At June 30, 2026 and 2025, the Health Plan has accrued \$615,153,263 and \$613,302,417, respectively. Of the \$615.2 million of accrued claims payable accrued as of June 30, 2026, \$500.9 million pertained to IBNR and \$114.3 million pertained to other accrued claims primarily consisting of accruals for TRI and Proposition 56 (Prop 56) State directed supplemental payments.

Note 6 – Quality Improvement Program

The Health Plan has established various quality improvement program arrangements designed to promote performance on specified quality, access, utilization and membership experience measures. Payment methodologies, performance requirements and maximum payment amounts are defined in the applicable provider contract amendment. The final payable amount under these arrangements is determined based on final performance measure results.

At June 30, 2026 and 2025, the Health Plan has accrued \$55,477,765 and \$79,609,869, respectively, due to providers under the quality improvement program.

Partnership Health Plan of California

Notes to Financial Statements

Note 7 – Leases

The Health Plan is a lessor for various noncancelable lease of office space with lease terms through 2039. For the years ended June 30, 2026 and 2025, the Health Plan recognized \$2,209,450 and \$1,967,845, respectively, in lease revenue released from the deferred inflows of resources related to the office leases included in other income on the statements of revenues, expenses, and changes in net position. The Health Plan recognized interest revenue of \$205,221 and \$174,032 for the years ended June 30, 2026 and 2025, respectively. No inflows of resources were recognized in the year related to termination penalties or residual value guarantees during the fiscal year.

Note 8 – Subscription Based Information Technology Arrangements

The following is a summary of changes in subscription liabilities, net of current portion for the years ended June 30:

	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion
2026	\$ 2,677,984	\$ 26,914,656	\$ 11,036,205	\$ 18,556,435	\$ 7,669,926
	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion
2025	\$ 2,348,078	\$ 6,612,295	\$ 6,282,390	\$ 2,677,984	\$ 1,904,231

The current portion of subscription liabilities is included in accounts payable and accrued expenses in the statements of net position.

The future principal and interest subscription payments as of June 30, 2026, are as follows:

Year Ending June 30,	Principal	Interest	Total
2027	\$ 7,669,926	\$ 310,249	\$ 7,980,175
2028	4,929,639	132,000	5,061,639
2029	3,279,146	57,906	3,337,052
2030	2,177,569	-	2,177,569
	<u>\$ 18,056,280</u>	<u>\$ 500,155</u>	<u>\$ 18,556,435</u>

Partnership Health Plan of California

Notes to Financial Statements

Note 9 – Partnership Health Plan of California Executive Supplemental Retirement Plan – Fiduciary Fund

Plan description – Effective May 1, 2001, the Health Plan's Board of Commissioners approved and adopted a tax-qualified governmental SERP for the benefit of certain eligible employees. The SERP is a single-employer defined benefit pension plan administered by the Health Plan. The SERP provides retirement, disability, and death benefits to plan members and their beneficiaries. With respect to plan members and their beneficiaries under the trust created pursuant to this plan, the trust assets are not to be used for, or diverted to, purposes other than the exclusive benefit of the plan members or their beneficiaries, as prescribed in Section 401(a)(2) of the Internal Revenue Code of 1986.

Benefits provided – An employee is eligible for benefits under this plan if, at the time of retirement on or after May 1, 2001, the employee is in a director position as specified in the SERP plan document, is at least 63 years of age or has at least seven years of service and has applied for benefits under the SERP.

Funding policy – The Health Plan will contribute at an actuarially determined rate; the rate was 8.69% and 20.39% in 2026 and 2025, respectively, of annual covered payroll. The contribution rate is established bi-annually and may be amended by the Health Plan's Board of Commissioners.

Summary of Significant Accounting Policies

Basis of accounting – The SERP fiduciary financial statements are prepared using the accrual basis of accounting. The Health Plan's contributions are recognized in the period in which contributions are made. Benefits are recognized when due and payable in accordance with the terms of the SERP.

Investments – The SERP's investments, consisting of mutual funds, are reported at fair value.

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

The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Mutual funds – Valued at the daily closing price as reported by the fund. Mutual funds held by the SERP are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the SERP are deemed to be actively traded.

Partnership Health Plan of California

Notes to Financial Statements

Investments by fair value level include the following as of June 30, 2026 and 2025:

	Level 1	Level 2	Level 3	Fair Value Measurement at June 30, 2026
Investments by fair value level				
Mutual funds	\$ 27,300,390	\$ -	\$ -	\$ 27,300,390
Total investments	<u>\$ 27,300,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,300,390</u>
				Fair Value Measurement at June 30, 2025
Investments by fair value level				
Mutual funds	\$ 23,701,628	\$ -	\$ -	\$ 23,701,628
Total investments	<u>\$ 23,701,628</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,701,628</u>

Plan description – Participant data for the Health Plan, as of the measurement date for the indicated years, is as follows:

	2026	2025
Retired and beneficiaries	7	9
Inactive	2	2
Active	22	20
Total participants	<u>31</u>	<u>31</u>

Partnership Health Plan of California

Notes to Financial Statements

Components of pension (benefit) cost (included in general and administrative expenses) and deferred outflows and inflows of resources for the years ended June 30 were as follows:

	2026	2025
Pension cost		
Service cost	\$ 776,463	\$ 694,409
Interest on total pension liability	1,211,541	1,034,618
Administrative expenses	88,313	80,831
Member contributions	(323,173)	(301,536)
Expected investment return, net of investment expenses	(1,565,545)	(1,376,003)
Recognition of deferred outflows of resources		
Recognition of economic/demographic gains	531,098	487,152
Recognition of assumption changes	13,544	16,867
Recognition of investment gains	(78,359)	(88,221)
Total pension cost	<u>\$ 653,882</u>	<u>\$ 548,117</u>
	2026	2025
Deferred outflows of resources as of June 30		
Difference between expected and actual experience	\$ 2,475,775	\$ 2,707,189
Changes in assumptions	24,276	37,820
Total	<u>\$ 2,500,051</u>	<u>\$ 2,745,009</u>
Deferred inflows of resources as of June 30		
Difference between expected and actual experience	\$ -	\$ (15,900)
Net difference between projected and actual earnings on pension plan investments	(2,724,096)	(624,601)
Total	<u>\$ (2,724,096)</u>	<u>\$ (640,501)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pension will be recognized in pension expense are as follows:

<u>Year Ended June 30,</u>	
2027	\$ (278,195)
2028	(342,425)
2029	(207,383)
2030	(7,730)
2031	325,073
Thereafter	286,615
	<u>\$ (224,045)</u>

Partnership Health Plan of California

Notes to Financial Statements

The following table summarizes changes in pension (asset) liability for the fiscal year ended June 30, 2026:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
Balance at June 30, 2025	\$ 18,424,856	\$ 24,139,379	(5,714,523)
Changes during the year:			
Service cost	776,463		776,463
Interest on the total pension asset	1,211,541		1,211,541
Effect of plan changes	-		-
Effect of economic/demographic gains or losses	315,584		315,584
Effect of assumptions, changes, or inputs	-		-
Benefit payments, including refunds of			-
employee contributions	(1,142,453)	(1,142,453)	-
Contributions - employer		797,713	(797,713)
Contributions - members		323,173	(323,173)
Net investment income		3,743,399	(3,743,399)
Administrative expenses		(88,313)	88,313
Net change in total pension (asset) liability	1,161,135	3,633,519	(2,472,384)
Balance at June 30, 2026	<u>\$ 19,585,991</u>	<u>\$ 27,772,898</u>	<u>\$ (8,186,907)</u>
Total pension liability			\$ 19,585,991
Plan fiduciary net position			<u>27,772,898</u>
Net pension asset			\$ (8,186,907)
Plan fiduciary net position as a percentage of the total pension asset			141.80%
Covered-employee payroll			\$ 9,184,306
Plan net pension asset as of a percentage of covered-employee payroll			-89.14%

Partnership Health Plan of California

Notes to Financial Statements

The following table summarizes changes in pension (asset) liability for the fiscal year ended June 30, 2025:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
Balance at June 30, 2024	\$ 15,861,104	\$ 20,780,557	(4,919,453)
Changes during the year:			
Service cost	694,409		694,409
Interest on the total pension asset	1,034,618		1,034,618
Effect of plan changes	-		-
Effect of economic/demographic gains or losses	2,131,805		2,131,805
Effect of assumptions, changes, or inputs	-		-
Benefit payments, including refunds of employee contributions	(1,297,080)	(1,297,080)	-
Contributions - employer		1,866,261	(1,866,261)
Contributions - members		301,536	(301,536)
Net investment income		2,568,936	(2,568,936)
Administrative expenses		(80,831)	80,831
Net change in total pension (asset) liability	2,563,752	3,358,822	(795,070)
Balance at June 30, 2025	<u>\$ 18,424,856</u>	<u>\$ 24,139,379</u>	<u>\$ (5,714,523)</u>
Total pension liability			\$ 18,424,856
Plan fiduciary net position			<u>24,139,379</u>
Net pension asset			\$ (5,714,523)
Plan fiduciary net position as a percentage of the total pension asset			131.02%
Covered-employee payroll			\$ 9,152,993
Plan net pension asset as of a percentage of covered-employee payroll			-62.43%

The following table summarizes the actuarial assumptions used to determine net pension (asset) liability and plan fiduciary net position as of June 30, 2026:

Valuation date:	Actuarially determined contribution rates are calculated as of June 30, and are applicable for the next two fiscal years beginning July 1
Actuarial cost method:	Entry-age normal cost method
Amortization method:	Level dollar
Asset valuation method:	Market value
Actuarial assumptions	
Discount rate:	6.50%
Long-term expected rate of return	6.50%
Projected salary increases:	Fiscal year 2025 only - 20%, then graded rates based on years of service, 3.34% after 30 years of service
Cost-of-living adjustments:	2.00% compounded annually
Inflation:	2.30%
Mortality:	Nonindustrial rates used to value the miscellaneous CalPers

Partnership Health Plan of California

Notes to Financial Statements

The following table summarizes the sensitivity of net pension asset to changes in the discount rate as of June 30, 2026:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Total pension liability	\$ 21,676,707	\$ 19,585,991	\$ 17,824,879
Fiduciary net position	27,772,898	27,772,898	27,772,898
Net pension asset	<u>\$ (6,096,191)</u>	<u>\$ (8,186,907)</u>	<u>\$ (9,948,019)</u>

The following table summarizes the sensitivity of net pension asset to changes in the discount rate as of June 30, 2025:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Total pension liability	\$ 20,376,138	\$ 18,424,856	\$ 16,778,961
Fiduciary net position	24,139,379	24,139,379	24,139,379
Net pension asset	<u>\$ (3,763,241)</u>	<u>\$ (5,714,523)</u>	<u>\$ (7,360,418)</u>

Note 10 – Tangible Net Equity

As a limited license plan under the Knox-Keene Health Care Services Plan Act of 1975, the Health Plan is required to maintain a minimum level of tangible net equity. The required tangible net equity level was \$235,457,449 and \$214,768,160 at June 30, 2026 and 2025, respectively. The Health Plan's tangible net equity was \$1,475,305,405 and \$1,457,550,212 at June 30, 2026 and 2025, respectively.

Note 11 – Risk Management

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

Partnership Health Plan of California

Notes to Financial Statements

Note 12 – Commitments and Contingencies

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

Note 13 – Federal and State Healthcare Policy and Budget Cuts

The Health Plan is subject to risks and uncertainties arising from federal and state health care legislation, regulation, and budgetary actions affecting the Medi-Cal program. Certain recently enacted federal legislation and State budget and regulatory actions are already affecting, and are expected to continue to affect, the Health Plan's enrollment, revenues, health care costs, and operations. These actions include changes to Medi-Cal eligibility requirements and asset limits, the transition of certain Unsatisfactory Immigration Status members from managed care to fee-for-service, modifications to Enhanced Care Management and Community Supports programs, changes to managed care organization tax structures and directed payment programs, and other programmatic and administrative requirements. In addition, federal legislation enacted in July 2025 imposed restrictions on Medicaid eligibility and financing that are expected to have continuing effects on the Medi-Cal program and the Health Plan.

The Health Plan is highly dependent upon the State of California for its revenues, with substantially all revenues and accounts receivable derived from the State. Accordingly, changes in State or federal funding, reimbursement methodologies, eligibility requirements, managed care financing mechanisms, or other regulatory requirements could materially affect the Health Plan's financial position and results of operations. These regulatory and budgetary changes have already contributed to changes in enrollment and operating costs and have been incorporated into management's current financial projections. The Health Plan expects these changes, together with ongoing State and federal budgetary pressures, to continue to affect enrollment, revenue adequacy, provider participation, utilization, and operations in future periods. Given the Health Plan's rural service area and limited provider network, changes in provider participation or the loss or closure of key providers could further affect access to care and the Health Plan's financial results. While certain effects are currently being experienced, the timing and magnitude of the continuing financial impact of these developments remain uncertain.

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Supplementary Information

Partnership Health Plan of California
Statement of Revenues, Expenses, and Changes in Net Position –
Actual and Budget Operations
Year Ended June 30, 2026

	Actual	Budget	Variance Revenue/Expense Over (Under)
OPERATING REVENUES			
California Department of Health Services capitation revenue	\$ 7,098,527,211	\$ 7,609,365,167	\$ (510,837,956)
Other income	20,588,686	2,447,000	18,141,686
Total operating revenues	7,119,115,897	7,611,812,167	(492,696,270)
OPERATING EXPENSES			
Health care expenses			
Fee for service hospital, physician, and other services	4,854,487,624	5,314,967,033	(460,479,409)
Capitated physician, hospital, and other costs	326,007,748	330,924,554	(4,916,806)
Long-term care	715,849,280	731,283,413	(15,434,133)
Quality improvement program and hospital stoploss	68,078,522	96,025,184	(27,946,662)
Total health care expenses	5,964,423,174	6,473,200,184	(508,777,010)
GENERAL AND ADMINISTRATIVE EXPENSES			
Other admin expenses	28,534,184	9,920,200	18,613,984
Computer and data costs	44,275,476	53,986,455	(9,710,979)
Employee expenses	262,361,828	325,293,093	(62,931,265)
Occupancy costs	16,506,379	33,393,279	(16,886,900)
Operational costs	8,284,817	12,460,034	(4,175,217)
Professional services	51,925,222	51,684,903	240,319
Travel and meals expenses	1,380,225	3,410,399	(2,030,174)
Total general and administrative expenses	413,268,132	490,148,363	(76,880,231)
Premium tax	779,016,409	798,976,464	(19,960,055)
Total operating expenses	7,156,707,715	7,762,325,011	(605,617,296)
Operating deficit	(37,591,818)	(150,512,844)	112,921,026
NONOPERATING REVENUES (EXPENSES)			
Investment income	91,145,523	80,779,000	10,366,523
Community reinvestments	(35,798,512)	-	(35,798,512)
Total nonoperating revenues	55,347,011	80,779,000	(25,431,989)
INCREASE (DECREASE) IN NET POSITION	17,755,193	(69,733,844)	87,489,037
NET POSITION, beginning of year	1,457,550,212	1,457,550,212	-
NET POSITION, end of year	\$ 1,475,305,405	\$ 1,387,816,368	\$ 87,489,037

See accompanying notes.

Required Supplementary Pension Benefit Information

Partnership Health Plan of California
Supplementary Schedule of Changes in the Net Pension Asset and Related Ratios
Years Ended June 30, 2026 and 2025

	2026	2025
TOTAL PENSION LIABILITY		
Service cost	\$ 776,463	\$ 694,409
Interest	1,211,541	1,034,618
Difference between expected and actual experience	315,584	2,131,805
Benefit payments, including refunds of employee contributions	<u>(1,142,453)</u>	<u>(1,297,080)</u>
Net change in total pension liability	1,161,135	2,563,752
TOTAL PENSION LIABILITY, beginning of fiscal year	<u>18,424,856</u>	<u>15,861,104</u>
TOTAL PENSION LIABILITY, end of fiscal year	<u><u>\$ 19,585,991</u></u>	<u><u>\$ 18,424,856</u></u>
PLAN FIDUCIARY NET POSITION		
Contributions - employer	\$ 797,713	\$ 1,866,261
Contributions - employee	323,173	301,536
Net investment income	3,743,399	2,568,936
Benefit payments, including refunds of employee contributions	(1,142,453)	(1,297,080)
Other changes in fiduciary net position	<u>(88,313)</u>	<u>(80,831)</u>
Net change in fiduciary net position	3,633,519	3,358,822
PLAN FIDUCIARY NET POSITION, beginning of fiscal year	<u>24,139,379</u>	<u>20,780,557</u>
PLAN FIDUCIARY NET POSITION, end of fiscal year	<u><u>\$ 27,772,898</u></u>	<u><u>\$ 24,139,379</u></u>
PLAN NET PENSION ASSET	<u><u>\$ (8,186,907)</u></u>	<u><u>\$ (5,714,523)</u></u>
PLAN FIDUCIARY NET POSITION		
as a percentage of the total pension (asset) liability	141.80%	131.02%
COVERED-EMPLOYEE PAYROLL	\$ 9,184,306	\$ 9,152,993
PLAN NET PENSION ASSET		
as of a percentage of covered-employee payroll	-89.14%	-62.43%

Partnership Health Plan of California
Supplementary Schedule of Contributions
Years Ended June 30, 2026 and 2025

Fiscal Year Ending June 30	Actuarially Determined Contributions	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2017	\$ 443,798	\$ 1,092,266	\$ (648,468)	\$ 3,854,230	28.34%
2018	\$ 457,112	\$ 796,124	\$ (339,012)	\$ 3,618,215	22.00%
2019	\$ 516,967	\$ 796,124	\$ (279,157)	\$ 3,512,096	22.67%
2020	\$ 315,503	\$ 2,999,233	\$ (2,683,730)	\$ 3,443,478	87.10%
2021	\$ 308,995	\$ 2,199,301	\$ (1,890,306)	\$ 3,783,868	58.12%
2022	\$ 315,937	\$ 506,632	\$ (190,695)	\$ 5,364,882	9.44%
2023	\$ 434,568	\$ 464,413	\$ (29,845)	\$ 6,325,907	7.34%
2024	\$ 541,714	\$ 1,463,028	\$ (921,314)	\$ 7,083,809	20.65%
2025	\$ 668,071	\$ 1,866,261	\$ (1,198,190)	\$ 9,152,993	20.39%
2026	\$ 703,288	\$ 797,713	\$ (94,425)	\$ 9,184,306	8.69%

Partnership Health Plan of California
Partnership Health Plan of California Supplemental Executive Retirement Plan –
Supplementary Schedule of Investment Returns
Years Ended June 30, 2026 and 2025

<u>Years Ended June 30</u>	<u>Rate of return</u>
2017	8.78%
2018	5.59%
2019	5.58%
2020	3.61%
2021	20.33%
2022	-11.44%
2023	6.39%
2024	10.24%
2025	12.13%
2026	15.52%

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Communications with the Commissioners

Partnership Health Plan of California

June 30, 2026

Communications with the Commissioners

To the Commissioners
Partnership Health Plan of California

We have audited the financial statements of Partnership Health Plan of California (the Health Plan) as of and for the year ended June 30, 2026, and have issued our report thereon dated October ____, 2026. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated March 30, 2026, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership Health Plan of California's internal control over financial reporting. Accordingly, we considered Partnership Health Plan of California's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

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

The supplementary information was subject to certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated March 30, 2026.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Partnership Health Plan of California are described in Note 2 to the financial statements. During the year ended June 30, 2026, the Health Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements* and GASB Statement No. 104, *Disclosure of Certain Capital Assets*. The management's discussion and analysis, and the financial statements were updated to apply these adoptions. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2026. We noted no transactions entered into by the Health Plan during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

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

- Management recorded an estimated liability for incurred but unreported claims expenses. The estimated liability for unreported claims is based on management's estimate of historical claims experience and known activity subsequent to year end. We have gained an understanding of management's estimate methodology and have examined the documentation supporting these methodologies and formulas. We found management's process to be reasonable.
- Management recorded an estimated liability for the quality improvement program. The estimated liability is based on the providers' performance by region and are calculated based on the risk sharing agreements in the provider contracts. We have gained an understanding of management's estimate methodology and have examined the documentation supporting these methodologies and formulas. We found management's process to be reasonable.
- Management recorded an estimated amount due to the State of California. The estimated payable for eligible Medi-Cal program beneficiaries is based upon estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. We evaluated the key factors and assumptions used to develop the estimated net realizable amounts. We found management's basis to be reasonable in relation to the financial statements taken as a whole.
- Management recorded an estimated capitation receivable. The estimated capitation receivable for eligible Medi-Cal program beneficiaries is based upon a historical experience methodology. We have gained an understanding of management's estimate methodology and have examined the documentation supporting these methodologies and formulas. We found management's process to be reasonable.
- Management's estimate of the net pension asset is actuarially determined using assumptions on the long-term rate of return on pension plan assets, the discount rate used to determine the present value of benefit obligations, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the financial

statements taken as a whole.

- The useful lives of capital assets have been estimated based on the intended use and are within accounting principles generally accepted in the United States of America.
- Management's estimates of the discount rate and subscription terms related to the Health Plan's subscription assets and subscription liabilities. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the Health Plan's financial statements taken as a whole.
- Management's estimates of the discount rate and lease terms related to the Health Plan's lease receivable. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the Health Plan's financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were related to incurred, but unreported claims expense and capitation revenues.

Significant Unusual Transactions

We encountered no significant unusual transactions during our audit of the Health Plan's financial statements.

Significant Difficulties Encountered in Performing the Audit

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the Health Plan's financial statements.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

There may be circumstances in which we would consider it necessary to include additional information in the auditor's report in accordance with U.S. GAAS. There were no circumstances that affected the form and content of the auditor's report.

Corrected and Uncorrected Misstatements

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated **October 1, 2026**.

Management Consultation with Other Independent Accountants

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

Other Significant Audit Findings or Issues

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

This information is intended solely for the use of the Commissioners and management of Partnership Health Plan of California, and is not intended to be, and should not be, used by anyone other than these specified parties.

San Francisco, California

October __, 2026



**Finance Committee
Chief Executive Officer Update
October 13, 2026**

- 1. Medicare Update**
- 2. Equity and Practice Transformation (EPT) Program Payments**
- 3. Community Supports**
- 4. UIS Transition**

FINANCIAL HIGHLIGHTS

Of The Partnership HealthPlan of California

For the Period Ending August 31, 2026

Financial Analysis for the Current Period

Total Surplus / Deficit

For the month ending August 31, 2026, Partnership reported a deficit of \$24.3 million, bringing the year-to-date deficit to \$41.4 million. Key variances are outlined below.

Revenue

Total Revenue is unfavorable to budget by \$6.0 million for the month and \$24.4 million for the year-to-date. The following summarizes the year-to-date variances. Medi-Cal revenue is \$8.4 million favorable to budget primarily due to timing in recording risk corridor adjustments. Directed Payments are \$47.7 million unfavorable to budget due to lower than anticipated rates with a corresponding offset recorded in Healthcare Investment Funds (HCIF). Supplemental revenues are \$12.5 million favorable to budget, reflecting higher Proposition 56 revenue, higher DHCS submissions for American Indian Health Services (AIHS) payments, and higher than expected volumes for Maternity Kick. Interest income is \$1.0 million favorable to budget due to higher interest rates than anticipated. The remaining \$1.4 million favorable variance is attributed to other revenues.

Healthcare Costs

Total Healthcare Costs are unfavorable to budget by \$9.2 million for the month but \$5.4 million favorable for the year-to-date. The following summarizes the year-to-date variances. Non-Capitated Physician and Ancillary expenses are \$51.3 million unfavorable to budget primarily due to adjustments to Incurred but Not Reported (IBNR) reserves which reflect the latest utilization trend. Capitation expenses are \$2.4 million favorable to budget due to changes in the funding methodologies for certain healthcare providers. Long-term care costs are favorable to budget by \$6.6 million due to lower than expected utilization. Inpatient Hospital Fee-For-Service (FFS) expenses are unfavorable to budget by \$3.3 million due to higher utilization. HCIF expenses are \$49.6 million favorable to budget due to lower than anticipated Directed Payment rates with an offsetting revenue component as referenced above. Transportation costs are \$3.1 million unfavorable to budget, attributed to an increase in utilization. Quality Assurance expenses are \$4.5 million favorable to budget due to lower than budgeted medical administrative costs.

Administrative Costs

Total Administrative costs are overall favorable to budget by \$6.7 million for the month and \$12.5 million for the year-to-date. The primary driver of favorability is in Employee costs due to the timing of the filling of open positions geared towards fulfilling our regulatory requirements; this offsets some of the unfavorability in the Professional Services category due to the timing of the utilization of consultants. Additional favorable variances in Occupancy are primarily driven by timing of maintenance and utility costs and in the Computer and Data category primarily driven by timing of software purchases, which typically correlates to the variance in staffing.

Balance Sheet / Cash Flow

Total Cash & Cash Equivalents decreased by \$119.8 million for the month. Typical significant cash

FINANCIAL HIGHLIGHTS

Of The Partnership HealthPlan of California

For the Period Ending August 31, 2026

transactions include State Capitation payments received; healthcare cost payments to providers; and administrative and capital payments out to vendors, employees, and other entities. A key highlight for the month was a \$69.3 million payout for the calendar year 2024 Unsatisfactory Immigration Status (UIS) Risk Corridor.

General Statistics

Membership

Membership had a total net decrease of 48 members for the month.

Utilization Metrics and High Dollar Case

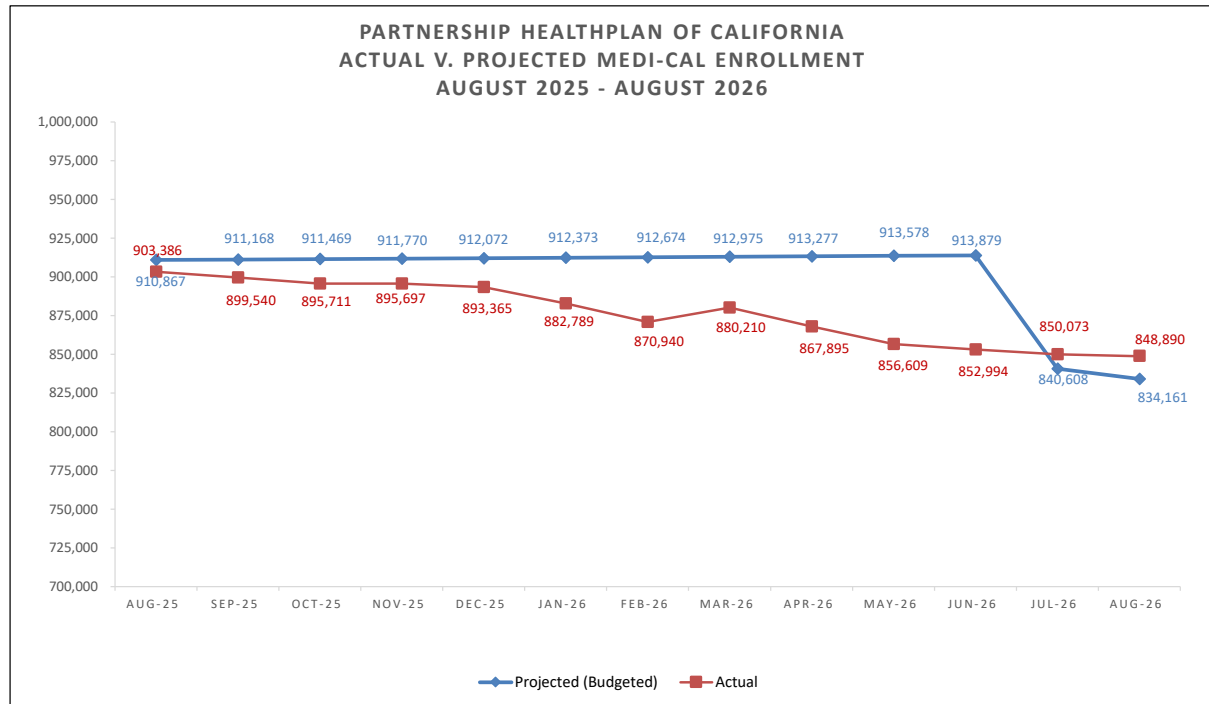
For the fiscal year 2026/27 through August 2026, 89 members reached the \$250,000 threshold with an average cost of \$479,049. For fiscal year 2025/26, 1,431 members reached the \$250,000 threshold with an average cost per case of \$512,895. For fiscal year 2024/25, 1,294 members reached the \$250,000 threshold with an average claims cost of \$513,867.

Current Ratio/Reserved Funds

Current Ratio Including Required Reserves:	1.45
Current Ratio Excluding Required Reserves:	1.00
Required Reserves:	\$ 1,432,215,943
Total Fund Balance:	\$ 1,433,871,960

Days of Cash on Hand

Including Required Reserves:	96.27
Excluding Required Reserves:	34.37



Member Months by County:

County	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Solano	102,676	102,240	101,767	101,583	101,555	98,608	97,031	98,109	96,112	94,063	93,037	93,536	93,325
Napa	27,619	27,642	27,529	27,480	27,355	26,951	26,540	26,659	26,242	25,959	25,962	25,565	25,512
Yolo	54,223	54,152	53,995	54,252	54,140	53,283	52,229	53,552	52,558	51,925	51,634	51,217	50,857
Sonoma	111,588	110,631	110,400	109,596	109,061	107,549	104,697	105,595	104,205	101,994	100,881	99,494	98,939
Marin	46,806	46,609	46,235	46,089	45,096	44,197	43,709	44,101	43,451	42,266	41,744	41,207	41,300
Mendocino	40,506	40,390	40,244	40,200	40,229	39,247	39,125	39,376	38,850	38,565	38,223	38,255	38,047
Lake	33,568	33,236	33,298	33,359	33,389	33,107	32,715	32,770	32,563	32,472	32,310	32,123	32,100
Del Norte	12,314	12,197	12,191	12,220	12,169	12,188	12,077	12,027	11,967	11,744	11,724	11,703	11,629
Humboldt	56,962	56,678	56,451	56,095	55,976	55,830	55,208	55,173	54,632	53,886	53,766	53,393	53,404
Lassen	8,358	8,439	8,412	8,406	8,491	8,375	8,305	8,255	8,204	8,025	8,055	8,049	8,022
Modoc	3,888	3,827	3,743	3,747	3,845	3,836	3,703	3,706	3,658	3,624	3,661	3,673	3,585
Shasta	64,714	64,742	64,786	65,062	64,124	64,876	63,940	64,314	63,758	63,487	63,606	63,398	63,645
Siskiyou	17,782	17,760	17,739	17,786	17,928	17,691	17,590	17,564	17,409	16,952	17,223	17,176	17,140
Trinity	5,220	5,103	5,169	5,118	5,081	4,955	4,955	5,000	4,962	4,894	4,890	4,787	4,718
Butte	84,665	84,532	84,241	84,407	84,874	84,412	83,486	83,679	83,341	83,296	83,128	83,126	83,098
Colusa	10,152	9,996	9,913	9,968	10,006	10,025	9,825	9,899	9,867	9,617	9,773	9,723	9,713
Glenn	13,687	13,672	13,523	13,497	13,456	13,358	13,182	13,222	13,064	12,859	12,906	12,892	12,806
Nevada	28,464	28,369	28,250	28,148	28,633	28,415	28,427	28,548	28,346	27,583	27,575	27,743	27,755
Placer	61,883	61,676	61,371	61,679	61,561	60,619	59,451	62,164	60,536	60,081	59,681	59,786	60,634
Plumas	5,783	5,616	5,575	5,478	5,429	5,395	5,292	5,270	5,278	5,297	5,255	5,236	5,217
Sierra	825	832	820	810	813	828	823	817	814	805	783	775	790
Sutter	44,471	44,294	43,923	44,223	44,067	43,956	43,584	44,445	43,563	43,174	43,484	43,371	43,024
Tehama	29,626	29,551	29,266	29,219	29,095	29,098	29,019	28,962	28,589	28,254	28,231	28,110	27,961
Yuba	37,606	37,356	36,870	37,275	36,992	35,990	36,027	37,003	35,926	35,787	35,462	35,735	35,669
All Counties Total	903,386	899,540	895,711	895,697	893,365	882,789	870,940	880,210	867,895	856,609	852,994	850,073	848,890

Partnership HealthPlan of California
Comparative Financial Indicators Monthly Report
Fiscal Year 2026 - 2027 & Fiscal Year 2025 - 2026

FINANCIAL INDICATORS													Avg / Month As of
	Jul-26	Aug-26											YTD Aug-26
Total Enrollment	845,592	845,544											1,691,136 845,568
Total Revenue	574,269,489	588,313,441											1,162,582,930 581,291,465
Total Healthcare Costs	499,787,409	524,805,069											1,024,592,480 512,296,240
Total Administrative Costs	28,646,448	24,876,649											53,523,097 26,761,549
Medi-Cal Hospital & Managed Care Taxes	63,001,807	62,898,992											125,900,799 62,950,400
Total Current Year Surplus (Deficit)	(17,166,175)	(24,267,269)											(41,433,446) (20,716,723)
Total Claims Payable	616,501,408	541,937,476											541,937,476 579,219,442
Total Fund Balance	1,458,139,229	1,433,871,960											1,433,871,961 1,446,005,595
Reserved Funds													
State Financial Performance Guarantee	1,179,810,000	1,178,447,000											1,178,447,000 1,179,128,500
Board Approved Capital and Infrastructure Purchases	84,955,473	84,193,814											84,193,814 84,574,644
Capital Assets	169,392,254	169,575,129											169,575,129 169,483,692
Strategic Use of Reserve-Board Approved	32,612,668	31,737,668											31,737,668 32,175,168
Unrestricted Fund Balance	(8,631,166)	(30,081,651)											(30,081,651) (19,356,409)
Fund Balance as % of Reserved Funds	99.41%	97.95%											97.95% 98.68%
Current Ratio (including Required Reserves)	1.47:1	1.45:1											1.45:1 1.46:1
Medical Loss Ratio w/o Tax	97.75%	99.88%											98.83% 98.83%
Admin Ratio w/o Tax	5.60%	4.73%											5.16% 5.16%
Profit Margin Ratio	-3.36%	-4.62%											-4.00% -4.00%

FINANCIAL INDICATORS													Avg / Month As of
	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	YTD Jun-26
Total Enrollment	911,768	903,653	898,537	895,299	893,778	892,208	880,183	870,940	869,706	862,120	854,931	848,405	10,581,528 881,794
Total Revenue	593,945,794	596,614,742	614,951,654	605,173,794	589,922,935	597,186,401	597,564,630	582,105,182	598,248,494	584,419,840	598,548,850	651,579,103	7,210,261,419 600,855,118
Total Healthcare Costs	498,796,206	506,539,614	512,291,047	520,182,134	500,456,939	496,774,321	509,948,545	476,842,427	505,708,177	497,005,879	534,802,208	542,145,317	6,101,492,820 508,457,735
Total Administrative Costs	24,791,602	22,017,598	26,477,113	24,878,941	26,778,257	26,528,471	26,108,033	23,515,181	26,583,549	29,267,043	27,040,349	28,010,865	311,996,997 25,999,750
Medi-Cal Hospital & Managed Care Taxes	66,396,128	65,722,340	65,436,800	65,176,911	65,100,207	65,268,296	65,351,788	64,457,740	65,122,231	64,257,297	63,472,321	63,254,350	779,016,409 64,918,034
Total Current Year Surplus (Deficit)	3,961,858	2,335,190	10,746,694	(5,064,192)	(2,412,468)	8,615,313	(3,843,736)	17,289,834	834,537	(6,110,379)	(26,766,028)	18,168,570	17,755,193 1,479,599
Total Claims Payable	629,390,689	669,310,022	649,369,505	691,165,158	693,242,993	695,889,424	733,344,288	698,356,590	626,293,648	646,605,440	676,948,645	615,153,264	615,153,264 668,755,805
Total Fund Balance	1,461,512,071	1,463,847,260	1,474,593,953	1,469,529,761	1,467,117,293	1,475,732,606	1,471,888,870	1,489,178,704	1,490,013,242	1,483,902,863	1,457,136,835	1,475,305,406	1,475,305,406 1,473,313,239
Reserved Funds													
State Financial Performance Guarantee	1,135,173,000	1,146,059,000	1,166,267,000	1,181,553,000	1,195,372,000	1,208,212,000	1,221,224,000	1,191,261,000	1,175,457,000	1,173,987,000	1,174,823,000	1,183,088,000	1,183,088,000 1,179,373,000
Board Approved Capital and Infrastructure Purchases	100,733,349	100,103,601	98,688,437	97,620,158	94,941,438	93,782,664	92,028,380	90,442,990	89,322,236	88,490,275	87,191,571	86,188,795	86,188,795 93,294,491
Capital Assets	161,362,815	161,328,374	162,223,752	162,679,193	164,744,577	165,348,675	166,558,763	167,531,839	168,044,105	167,542,468	168,323,898	168,742,088	168,742,088 165,369,212
Strategic Use of Reserve-Board Approved	71,002,668	71,002,668	71,002,668	71,002,668	71,002,668	71,002,668	68,377,668	68,377,668	68,377,668	68,377,668	68,377,668	32,612,668	32,612,668 66,709,751
Unrestricted Fund Balance	(6,759,761)	(14,646,383)	(23,587,903)	(43,325,258)	(58,943,390)	(62,613,402)	(76,299,941)	(28,434,793)	(11,187,767)	(14,494,548)	(41,579,301)	4,673,854	4,673,854 (31,433,216)
Fund Balance as % of Reserved Funds	99.54%	99.01%	98.43%	97.14%	96.14%	95.93%	95.07%	98.13%	99.25%	99.03%	97.23%	100.32%	100.32% 98.65%
Current Ratio (including Required Reserves)	1.49:1	1.46:1	1.44:1	1.45:1	1.43:1	1.43:1	1.46:1	1.44:1	1.43:1	1.50:1	1.47:1	1.47:1	1.47:1 1.46:1
Medical Loss Ratio w/o Tax	94.55%	95.41%	93.23%	96.33%	95.36%	93.39%	95.82%	92.12%	94.86%	95.55%	99.95%	92.10%	94.87% 98.09%
Admin Ratio w/o Tax	4.70%	4.15%	4.82%	4.61%	5.10%	4.99%	4.91%	4.54%	4.99%	5.63%	5.05%	4.76%	4.85% 5.02%
Profit Margin Ratio	0.75%	0.44%	1.96%	-0.94%	-0.46%	1.62%	-0.72%	3.34%	0.16%	-1.17%	-5.00%	3.09%	0.28% 0.29%

PARTNERSHIP HEALTHPLAN OF CALIFORNIA
Membership and Financial Summary
For The Period Ending August 31, 2026

CURRENT MONTH	PRIOR MONTH	INC / DEC	MEMBERSHIP SUMMARY	CURRENT YTD AVG	PRIOR YTD AVG	VARIANCE
845,544	845,592	(48)	Total Membership	845,568	907,711	(62,143)

ACTUAL MONTH	BUDGET MONTH	\$ VARIANCE MONTH	FINANCIAL SUMMARY	ACTUAL YTD	BUDGET YTD	\$ VARIANCE YTD
588,313,441	594,359,904	(6,046,463)	Total Revenue	1,162,582,930	1,186,948,683	(24,365,753)
524,805,069	515,633,077	(9,171,992)	Total Healthcare Costs	1,024,592,480	1,030,028,560	5,436,080
24,876,649	31,526,700	6,650,051	Total Administrative Costs	53,523,097	65,990,010	12,466,913
62,898,992	61,811,345	(1,087,647)	Medi-Cal Managed Care Tax	125,900,799	124,100,432	(1,800,367)
(24,267,269)	(14,611,218)	(9,656,051)	Total Current Year Surplus (Deficit)	(41,433,446)	(33,170,319)	(8,263,127)

99.88%	96.82%	Medical Loss Ratio (HC Costs as a % of Rev, excluding Managed Care Tax)	98.83%	96.91%
4.73%	5.92%	Admin Ratio (Admin Costs as a % of Rev, excluding Managed Care Tax)	5.16%	6.21%

PARTNERSHIP HEALTHPLAN OF CALIFORNIA

Balance Sheet As Of August 31, 2026

	<u>August 2026</u>	<u>July 2026</u>
A S S E T S		
Current Assets		
Cash & Cash Equivalents	700,964,460	820,774,457
Receivables		
Accrued Interest	778,700	388,100
State DHS - Cap Rec	2,019,435,841	1,861,297,969
Other Healthcare Receivable	31,747,984	28,723,981
Miscellaneous Receivable	10,214,960	10,173,593
Total Receivables	2,062,177,485	1,900,583,643
Other Current Assets		
Payroll Clearing	442	5,180
Prepaid Expenses	15,526,401	16,179,596
Total Other Current Assets	15,526,843	16,184,776
Total Current Assets	2,778,668,788	2,737,542,876
Non-Current Assets		
Fixed Assets		
Motor Vehicles	1,045,364	1,045,364
Furniture & Fixtures	7,701,728	7,701,728
Computer Equipment	23,160,070	23,160,070
Computer Software	9,060,595	9,060,595
Leasehold Improvements	124,288	124,288
Land	11,330,439	11,330,439
Building	79,474,549	79,474,549
Building Improvements	46,911,927	46,911,927
Accum Depr - Motor Vehicles	(626,582)	(603,056)
Accum Depr - Furniture	(6,863,878)	(6,844,563)
Accum Depr - Comp Equipment	(20,449,554)	(20,301,245)
Accum Depr - Comp Software	(9,033,277)	(9,031,864)
Accum Depr - Leasehold Improvements	(124,288)	(124,288)
Accum Depr - Building	(16,587,592)	(16,417,774)
Accum Depr - Bldg Improvements	(19,316,306)	(19,099,904)
Construction Work-In-Progress	63,767,647	63,005,988
Total Fixed Assets	169,575,130	169,392,254
Other Non-Current Assets		
Board-Designated Reserves	1,262,340,814	1,264,465,473
Knox-Keene Reserves	300,000	300,000
Prepaid - Other Non-Current	8,275,475	8,275,475
Net Pension Asset	8,186,907	8,186,907
Deferred Outflows Of Resources	2,500,051	2,500,051
Net Subscription Asset	18,998,626	18,998,626
Total Other Non-Current Assets	1,300,615,561	1,302,726,532
Total Non-Current Assets	1,470,190,691	1,472,118,786
Total Assets	4,248,859,479	4,209,661,662

PARTNERSHIP HEALTHPLAN OF CALIFORNIA

Balance Sheet As Of August 31, 2026

	<u>August 2026</u>	<u>July 2026</u>
LIABILITIES & FUND BALANCE		
Liabilities		
Current Liabilities		
Accounts Payable	345,081,539	285,155,516
Unearned Income	37,380,380	38,334,893
Suspense Account	11,025,275	10,122,077
Capitation Payable	11,234,628	10,354,452
State DHS - Cap Payable	32,633,113	32,633,113
Accrued Healthcare Costs	1,731,752,506	1,663,143,497
Claims Payable	163,097,116	228,952,653
Incurred But Not Reported-IBNR	378,840,360	387,548,755
Quality Improvement Programs	72,807,099	64,141,974
Total Current Liabilities	2,783,852,016	2,720,386,930
Non-Current Liabilities		
Deferred Inflows Of Resources	12,579,067	12,579,067
Net Subscription Liability	18,556,435	18,556,435
Total Non-Current Liabilities	31,135,502	31,135,502
Total Liabilities	2,814,987,518	2,751,522,432
Fund Balance		
Unrestricted Fund Balance	(30,081,651)	(8,631,166)
Reserved Funds		
State Financial Performance Guarantee	1,178,447,000	1,179,810,000
Board Approved Capital and Infrastructure Purchases	84,193,814	84,955,473
Capital Assets	169,575,129	169,392,254
Strategic Use of Reserve-Board Approved	31,737,668	32,612,668
Total Reserved Funds	1,463,953,611	1,466,770,395
Total Fund Balance	1,433,871,961	1,458,139,230
Total Liabilities And Fund Balance	4,248,859,479	4,209,661,662

PARTNERSHIP HEALTHPLAN OF CALIFORNIA

Statement of Cash Flow

For The Period Ending August 31, 2026

	<u>Current Month Activity</u>	<u>Year-To-Date Activity</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From:		
Capitation from California Department of Health Care Services	491,950,118	983,978,687
Other Revenues	161,557	610,403
Cash Payments to Providers for Medi-Cal Members		
Capitation Payments	(18,942,183)	(41,292,219)
Medical Claims Payments	(497,405,944)	(893,221,730)
Drug Medi-Cal		
DMC Receipts from Counties	4,066,352	8,911,531
DMC Payments to Providers	(6,471,243)	(10,803,958)
Cash Payments to Vendors	(79,095,872)	(273,644,486)
Cash Payments to Employees	(21,420,286)	(43,275,613)
Net Cash (Used) by Operating Activities	<u>(127,157,501)</u>	<u>(268,737,385)</u>
CASH FLOWS FROM CAPITAL FINANCING & RELATED ACTIVITIES:		
Purchases of Capital Assets	(780,206)	(2,305,223)
Net Cash (Used) by Capital Financial & Related Activities	<u>(780,206)</u>	<u>(2,305,223)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Board-Designated Reserve Transfers	2,124,659	6,635,981
Interest and Dividends on Investments	6,003,051	13,404,484
Net Cash Provided by Investing Activities	<u>8,127,710</u>	<u>20,040,465</u>
NET (DECREASE) IN CASH & CASH EQUIVALENTS	(119,809,997)	(251,002,143)
CASH & CASH EQUIVALENTS, BEGINNING	<u>820,774,457</u>	<u>951,966,603</u>
CASH & CASH EQUIVALENTS, ENDING	<u><u>700,964,460</u></u>	<u><u>700,964,460</u></u>
RECONCILIATION OF TOTAL OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES		
TOTAL OPERATING LOSS	(30,660,920)	(54,901,829)
DEPRECIATION	578,784	1,161,940
CHANGES IN ASSETS AND LIABILITIES:		
Other Receivables	(3,065,370)	(13,891,553)
California Department of Health Services Receivable	(158,137,872)	(232,627,066)
Other Assets	662,792	(430,759)
Accounts Payable and Accrued Expenses	129,363,893	87,838,336
Accrued Claims Payable	(74,563,933)	(73,215,788)
Quality Improvement Programs	8,665,125	17,329,334

PARTNERSHIP HEALTHPLAN OF CALIFORNIA

Statement of Revenues and Expenses
For The Period Ending August 31, 2026

The Notes to the Financial Statement are an Integral Part of this Statement

ACTUAL MONTH	BUDGET MONTH	\$ VARIANCE MONTH	ACTUAL MONTH PMPM	BUDGET MONTH PMPM		ACTUAL YTD	BUDGET YTD	\$ VARIANCE YTD	ACTUAL YTD PMPM	BUDGET YTD PMPM
845,544	845,544	-			TOTAL MEMBERSHIP	1,691,136	1,691,136	-		
					REVENUE					
580,762,434	587,894,894	(7,132,460)	686.85	695.29	State Capitation Revenue	1,147,280,514	1,174,026,773	(26,746,259)	678.41	694.22
6,393,651	6,242,470	151,181	7.56	7.38	Interest Income	13,468,384	12,484,940	983,444	7.96	7.38
1,157,356	222,540	934,816	1.37	0.26	Other Revenue	1,834,032	436,970	1,397,062	1.08	0.26
588,313,441	594,359,904	(6,046,463)	695.78	702.94	TOTAL REVENUE	1,162,582,930	1,186,948,683	(24,365,753)	687.46	701.86
					HEALTHCARE COSTS					
					Physician Services					
9,026,138	9,478,039	451,901	10.67	11.21	Pcp Capitation	18,076,367	18,945,102	868,735	10.69	11.20
194,662	203,631	8,969	0.23	0.24	Specialty Capitation	389,899	405,273	15,374	0.23	0.24
101,870,632	85,025,812	(16,844,820)	120.48	100.56	Non-Capitated Physician Services	191,901,467	168,864,604	(23,036,863)	113.47	99.85
111,091,432	94,707,482	(16,383,950)	131.38	112.01	Total Physician Services	210,367,733	188,214,979	(22,152,754)	124.39	111.29
					Inpatient Hospital					
15,999,505	16,680,724	681,219	18.92	19.73	Hospital Capitation	31,999,850	33,398,555	1,398,705	18.92	19.75
111,163,493	107,737,157	(3,426,336)	131.47	127.42	Inpatient Hospital - Ffs	218,799,832	215,548,061	(3,251,771)	129.38	127.46
1,003,973	1,003,973	-	1.19	1.19	Hospital Stoploss	1,712,533	1,712,533	-	1.01	1.01
128,166,971	125,421,854	(2,745,117)	151.58	148.34	Total Inpatient Hospital	252,512,215	250,659,149	(1,853,066)	149.31	148.22
60,778,482	63,792,756	3,014,274	71.88	75.45	Long Term Care	120,471,445	127,048,644	6,577,199	71.24	75.13
					Ancillary Services					
1,239,843	1,305,085	65,242	1.47	1.54	Ancillary Services - Capitated	2,470,493	2,609,429	138,936	1.46	1.54
120,324,982	99,787,475	(20,537,507)	142.30	118.02	Ancillary Services - Non-Capitated	227,819,631	199,525,001	(28,294,630)	134.71	117.98
121,564,825	101,092,560	(20,472,265)	143.77	119.56	Total Ancillary Services	230,290,124	202,134,430	(28,155,694)	136.17	119.52
					Other Medical					
5,744,875	7,912,360	2,167,485	6.79	9.36	Quality Assurance	12,043,764	16,578,270	4,534,506	7.12	9.80
73,546,996	101,494,966	27,947,970	86.98	120.04	Healthcare Investment Funds	153,392,012	202,983,061	49,591,049	90.70	120.03
120,899	125,520	4,621	0.14	0.15	Advice Nurse	241,556	262,990	21,434	0.14	0.16
15,125,464	12,420,454	(2,705,010)	17.89	14.69	Transportation	27,944,297	24,817,703	(3,126,594)	16.52	14.68
94,538,234	121,953,300	27,415,066	111.80	144.24	Total Other Medical	193,621,629	244,642,024	51,020,395	114.48	144.67
8,665,125	8,665,125	-	10.25	10.25	Quality Improvement Programs	17,329,334	17,329,334	-	10.25	10.25
524,805,069	515,633,077	(9,171,992)	620.66	609.85	TOTAL HEALTHCARE COSTS	1,024,592,480	1,030,028,560	5,436,080	605.84	609.08
					ADMINISTRATIVE COSTS					
16,428,852	20,731,320	4,302,468	19.43	24.52	Employee	34,568,295	43,437,050	8,868,755	20.44	25.69
66,197	243,230	177,033	0.08	0.29	Travel And Meals	126,283	509,670	383,387	0.07	0.30
1,185,177	2,028,720	843,543	1.40	2.40	Occupancy	2,592,562	4,184,590	1,592,028	1.53	2.47
980,917	1,002,550	21,633	1.16	1.19	Operational	1,337,282	2,100,590	763,308	0.79	1.24
2,704,686	3,177,370	472,684	3.20	3.76	Professional Services	6,785,727	6,657,440	(128,287)	4.01	3.94
3,510,820	4,343,510	832,690	4.15	5.14	Computer And Data	8,112,948	9,100,670	987,722	4.80	5.38
24,876,649	31,526,700	6,650,051	29.42	37.30	TOTAL ADMINISTRATIVE COSTS	53,523,097	65,990,010	12,466,913	31.64	39.02
62,898,992	61,811,345	(1,087,647)	74.39	73.10	Medi-Cal Managed Care Tax	125,900,799	124,100,432	(1,800,367)	74.45	73.38
(24,267,269)	(14,611,218)	(9,656,051)	(28.69)	(17.31)	TOTAL CURRENT YEAR SURPLUS (DEFICIT)	(41,433,446)	(33,170,319)	(8,263,127)	(24.47)	(19.62)

PARTNERSHIP HEALTHPLAN OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

August 31, 2026

1. ORGANIZATION

The Partnership HealthPlan of California (the HealthPlan) was formed as a health insurance organization and is legally a subdivision of the State of California but is not part of any city, county or state government system. The HealthPlan has quasi-independent political jurisdiction to contract with the State for managing Medi-Cal beneficiaries who reside in various Northern California counties. The HealthPlan is a combined public and private effort engaged principally in providing a more cost-effective method of healthcare. The HealthPlan began serving Medi-Cal eligible persons in Solano County in May 1994. That was followed by expansion into additional counties in March 1998, March 2001, October 2009, July 2011, September 2013, and January 2024. As of today, the HealthPlan serves members in 24 counties.

As a public agency, the HealthPlan is exempt from state and federal income tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING POLICIES:

The accounting and reporting policies of the HealthPlan conform to Generally Accepted Accounting Principles and general practices within the healthcare industry.

PROPERTY AND EQUIPMENT:

Property and equipment totaling \$10,000 or more are recorded at cost; this includes assets acquired through capital leases and improvements that significantly add to the productive capacity or extend the useful life of the asset. Costs of maintenance and repairs are expensed as incurred. Depreciation for financial reporting purposes is provided on a straight-line method over the estimated useful life of the asset. The costs of major remodeling and improvements are capitalized as building or leasehold improvements. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining term of the applicable lease or their estimated useful life. Building improvements are depreciated over their estimated useful life.

INVESTMENTS:

The HealthPlan investments can consist of U.S. Treasury Securities, Certificates of Deposits, Money Market and Mutual Funds, Government Pooled Funds, Agency Notes, Repurchase Agreements, Shares of Beneficial Interest and Commercial Paper and are carried at fair value.

RESERVED FUNDS:

As of August 2026, the HealthPlan has Total Reserved Funds of \$1.5 billion. This includes \$31.7 million of funds set aside for Board approved Strategic Use of Reserve (SUR) initiatives. The total SUR amount represents the net amount remaining for all SUR projects that have been approved to date and is periodically adjusted as projects are completed. Reserved Funds also

PARTNERSHIP HEALTHPLAN OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

August 31, 2026

includes \$0.3 million of Knox-Keene Reserves.

RECLASSIFICATIONS:

Certain reclassifications of prior period balances have been made to conform with the current period presentations. Such reclassifications do not affect the total increase in net position or total current or noncurrent assets or liabilities.

3. STATE CAPITATION REVENUE

Medi-Cal capitation revenue is based on the monthly capitation rates, as provided for in the State contract, and the actual number of Medi-Cal eligible members. Capitation revenues are paid by the State on a monthly basis in arrears based on estimated membership. As such, capitation revenue includes an estimate for amounts receivable from or refundable to the State for projected changes in membership and trued up monthly through a State reconciliation process. These estimates are continually monitored and adjusted, as necessary, as experience develops or new information becomes known.

4. HEALTHCARE COST

The HealthPlan continues to develop completion factors to calculate estimated liability for claims Incurred But Not Reported. These factors are reviewed and adjusted as more historical data becomes available. Budgeted capitation revenues and healthcare costs are adjusted each month to reflect changes in enrollee counts.

5. QUALITY IMPROVEMENT PROGRAM

The HealthPlan maintains quality improvement contracts with acute care hospitals and primary care physicians. As of August 2026, the HealthPlan has accrued a Quality Improvement Program payout of \$72.8 million.

6. ESTIMATES

Due to the nature of the operations of the HealthPlan, it is necessary to estimate amounts for financial statement presentation. Substantial overstatement or understatement of these estimates would have a significant impact on the statements. The items estimated through various methodologies are:

- Value of Claims Incurred But Not Reported
- Quality Incentive Payouts
- Earned Capitation Revenues
- Total Number of Members

PARTNERSHIP HEALTHPLAN OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
August 31, 2026

- Retro Capitation Expense for Certain Providers

7. **COMMITMENTS AND CONTINGENCIES**

In the ordinary course of business, the HealthPlan is party to claims and legal actions by enrollees, providers, and others. After consulting with legal counsel, the HealthPlan's Management is of the opinion that any liability which may ultimately be incurred as a result of claims or legal actions will not have a material effect on the financial position or results of the operations of the HealthPlan.

8. **UNUSUAL OR INFREQUENT ITEMS REPORTED IN CURRENT MONTH'S FINANCIAL STATEMENTS**

None noted.

Partnership HealthPlan of California
Investment Schedule
August 31, 2026

Name of Investment	Investment Type	Yield to Maturity	Trade Date	Maturity Date	Call Date	Face Value	Purchase Price	Market Value	Credit Rating Agency	Credit Rating
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FUNDS HELD FOR INVESTMENT:

Highmark Money Market	Cash & Cash Equiv	NA	Various	NA	NA	NA	\$ 1,856,259	\$ 1,856,259	NA	NR
Certificate of Deposit for Knox Keene	Cash & Cash Equiv	0.0405	1/31/2025	1/30/2030	NA	\$ 300,000	\$ 300,000	\$ 300,000	NA	NR

FUNDS HELD FOR OPERATIONS:

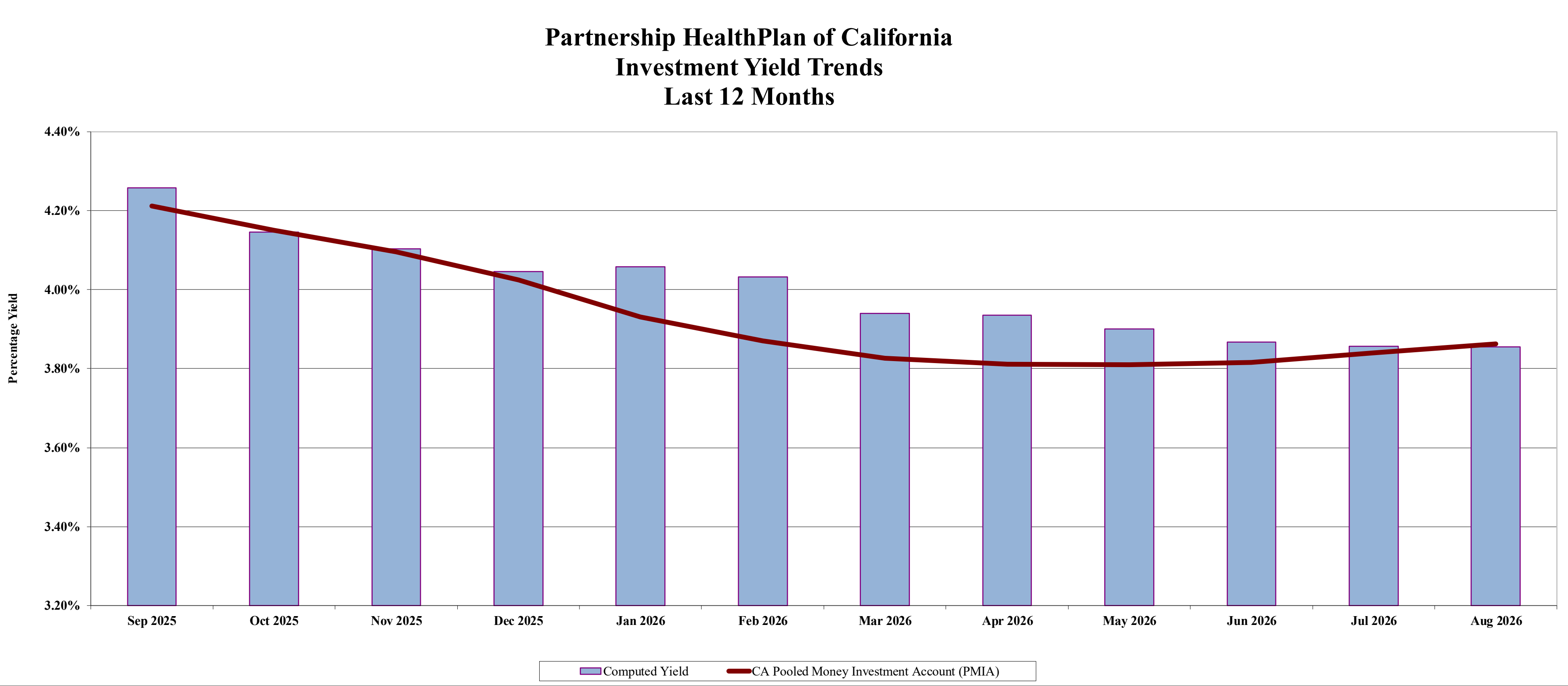
Merrill Lynch Institutional	Cash for Operations	NA	NA	NA	NA	NA	NA	\$ 82,305,880		
Merrill Lynch MMA - Checking	Cash for Operations	NA	NA	NA	NA	NA	NA	\$ 1,037,435		
US Bank - General, MMA, and Sweeps	Cash for Operations	NA	NA	NA	NA	NA	NA	\$ 1,755,899,676		
Government Investment Pools (LAIF)	Cash for Operations	NA	NA	NA	NA	NA	NA	\$ 75,000,000		
Government Investment Pools (County)	Cash for Operations	NA	NA	NA	NA	NA	NA	\$ 47,054,631		
West America Payroll	Cash for Operations	NA	NA	NA	NA	NA	NA	\$ 148,094		
Petty Cash	Cash for Operations	NA	NA	NA	NA	NA	NA	\$ 3,300		

GRAND TOTAL:

\$ 1,963,605,275

Partnership HealthPlan of California
Investment Yield Trends

PERIOD		Sep 2025	Oct 2025	Nov 2025	Dec 2025	Jan 2026	Feb 2026	Mar 2026	Apr 2026	May 2026	Jun 2026	Jul 2026	Aug 2026
Interest Income		7,941,176	8,116,523	6,918,278	7,880,097	8,365,738	6,897,186	7,765,472	8,154,675	7,103,154	6,978,324	7,074,733	6,393,651
Cash & Investments at Historical Cost	(1)	2,474,845,534	2,254,168,286	2,239,590,881	2,602,840,892	2,355,098,087	2,373,599,880	2,777,427,432	2,252,683,455	2,285,165,168	2,221,243,398	2,085,539,930	1,963,605,275
Computed Yield	(2)	4.26%	4.15%	4.10%	4.05%	4.06%	4.03%	3.94%	3.94%	3.90%	3.87%	3.86%	3.86%
CA Pooled Money Investment Account (PMIA)	(3)	4.21%	4.15%	4.10%	4.03%	3.93%	3.87%	3.83%	3.81%	3.81%	3.82%	3.84%	3.86%



NOTES:

- (1) Investment balances include Restricted Cash and Board Designated Reserves
- (2) Computed yield is calculated by dividing the past 12 months of interest by the average cash balance for the past 12 months.
- (3) LAIF limits the amount a single government entity can deposit into LAIF; currently that amount is set at \$75 million.

REGULAR AGENDA REQUEST
for
PARTNERSHIP HEALTHPLAN OF CALIFORNIA

Board / Finance Committee (when applicable)
Finance Committee Meeting Date: October 13, 2026
Board Meeting Date: October 28, 2026

Agenda Item Number:
2.4

Resolution Sponsor:
Sonja Bjork, CEO, Partnership HealthPlan of CA

Recommendation by:
Partnership Staff

Topic Description:

Partnership's FY 2026-27 approved budget maintained the capital expenditure levels previously approved for FY 2025-26. Management is requesting authority to reallocate approved capital expenditures among budget categories, as necessary, to address evolving operational, programmatic, and financial priorities, provided that such reallocations do not result in an increase to the total Board-approved capital budget.

Reason for Resolution:

To authorize management to reallocate capital expenditure funding among budget categories during FY 2026-27, as necessary to address evolving operational and business needs, including the funding of new capital projects, provided that such reallocations remain within and do not exceed the total Board-approved capital budget for FY 2026-27.

Financial Impact:

No financial impact. The resolution does not increase the overall approved capital budget.

Requested Action of the Board:

Based on the recommendation of Partnership staff, the Board is asked to authorize the CEO and CFO to reallocate previously approved capital expenditure funding among budget categories during FY 2026-27, provided that such reallocations remain within and do not exceed the total Board approved capital budget, and in accordance with the parameters outlined above.

REGULAR AGENDA REQUEST
for
PARTNERSHIP HEALTHPLAN OF CALIFORNIA

Board / Finance Committee (when applicable)
Finance Committee Meeting Date: October 13, 2026
Board Meeting Date: October 28, 2026

Agenda Item Number:
2.4

Resolution Number:
26-

**IN THE MATTER OF: APPROVING CAPITAL EXPENDITURE BUDGET
REALLOCATION AUTHORITY FOR FY 2026-2027**

Recital: Whereas,

- A. The Board is responsible for approving the annual budget and establishing reallocation authority.
- B. Management is requesting authority to reallocate approved capital expenditures within the authorized capital budget.

Now, Therefore, It Is Hereby Resolved As Follows:

- 1. To authorize the CEO and CFO to reallocate previously approved capital expenditure funding across budget categories during FY 2026-27, provided total approved capital expenditures are not exceeded.

PASSED, APPROVED, AND ADOPTED by the Partnership HealthPlan of California this 28th day of October 2026, by motion of Commissioner, seconded by Commissioner, and by the following votes:

AYES: Commissioners:

NOES: Commissioners:

ABSTAINED: Commissioners:

ABSENT: Commissioners:

EXCUSED: Commissioners:

Dean Germano, Chair

Date

ATTEST:

BY: _____ Page 80 of 81
Ashlyn Scott, Clerk

DETAIL CAPITAL BUDGET		
DEPARTMENT	BUDGET ITEM DESCRIPTION	TOTAL FY 26-27 ESTIMATED PURCHASE COSTS
Facilities	Airpark Office: Infrastructure Investments	\$ 17,810
	Avtech Office: Infrastructure Investments	\$ 150,000
	Building 4605: Infrastructure Investments	\$ 3,593,740
	Building 4665: Infrastructure Investments	\$ 1,144,068
	Building 4820: Infrastructure Investments	\$ 34,200
	Building 4820: Tenant Improvements	\$ 877,894
	Eureka Office: Infrastructure Investments	\$ 1,005,203
	Santa Rosa Office: Infrastructure Investments	\$ 13,141
	Santa Rosa Office: Solar/EV Charging Stations & Infrastructure	\$ 376,522
	281 Nevada St., Auburn: Infrastructure Investments	\$ 2,105,516
	1950 -Napa Building-Gasser Foundation : Infrastructure Investments	\$ 3,930
	2175 Shasta View-Redding: Infrastructure Investments	\$ 10,070,035
	351 Hartnell-Redding (the VA building): Infrastructure Investments	\$ 2,180,000
	1000 Fortress-Chico: Infrastructure Investments	\$ 100,341
Total Facilities Purchase Cost FY 2026-27		\$ 21,672,400
Information Technology	Annual Maintenance/renewals/upgrades	\$ 3,228,741
	Citrix VDI/UX Monitoring Solution	\$ 170,515
	Infrastructure Enhancements	\$ 8,363,924
	System/Software Enhancements	\$ 18,832,257
	Total Infrastructure and Annual Maintenance	\$ 30,595,437
	Phoenix Project	\$ 33,920,958
Total Information Technology Purchase Cost FY 2026-27		\$ 64,516,395
Total Purchase Cost FY 2026-27		\$ 86,188,795

SUMMARY OF CAPITAL BUDGET		
DEPARTMENT	BUDGET ITEM DESCRIPTION	TOTAL FY 26-27 ESTIMATED PURCHASE COSTS
Facilities	Infrastructure and Annual Maintenance	\$ 21,672,400
Total Facilities Purchase Cost FY 2026-27		\$ 21,672,400
Information Technology	Infrastructure and Annual Maintenance	30,595,437
	Phoenix Project	33,920,958
Total Information Technology Purchase Cost FY 2026-27		\$ 64,516,395
Total Purchase Cost FY 2026-27		\$ 86,188,795