

**TO:** CONNECT FOR HEALTH COLORADO FINANCE AND OPERATIONS COMMITTEE  
**FROM:** BRIAN BRAUN, CHIEF FINANCIAL OFFICER  
**SUBJECT:** QUARTERLY FINANCIAL REPORT 1ST QUARTER FISCAL YEAR 2020  
**DATE:** 10/24/2019

Key Performance Indicators	Status	YTD - 3 Months Ending 9.30.19		
		Actual	Target	% of Target
Effectuated Enrollment		139,900	140,000	99.9%
Net Operating Margin	(1)	39.4%	36.5%	
Per Member Per Month (PMPM) - Carrier Fees		\$22.0	\$22.1	99.8%
Per Member Per Month (PMPM) - Operating Exp.		\$22.4	\$23.5	95.7%
Days Cash on Hand	(2)	210.9	120.0	175.8%
Change In Projected 12 Month Cash Flows		Yes		

(1) Net income before depreciation as a % of revenue

(2) Based on FY20 budgeted daily operating expenses

Key metrics for the first quarter were close to targets for enrollments and financial measures. Cash remains in excess of target levels. The projection of cash flows has changed from the previous projection due to the decrease in insurance rates for the 2020 plan year. A more detailed discussion of the revised projections is addressed in the 24 month projection section below.

Financial Results (in 000's)	Status	YTD - 3 Months Ending 9.30.19		
		Actual	Budget	% of Budget
<b>Revenues</b>				
Program Revenue		5,675	5,675	100.0%
Carrier Fees		9,238	9,267	99.7%
Grant/Other Revenue		630	560	112.6%
<b>Total Revenue</b>		<b>15,544</b>	<b>15,502</b>	<b>100.3%</b>
<b>Expenditures</b>				
Technology		2,765	3,018	91.6%
Customer Service		3,146	3,378	93.1%
Personnel		2,212	2,264	97.7%
Marketing and Outreach		747	647	115.5%
Facilities		215	192	111.8%
Support Services		240	228	105.6%
Other		94	124	76.0%
<b>Total Expenditures</b>		<b>9,419</b>	<b>9,851</b>	<b>95.6%</b>
<b>Earnings Before Depreciation</b>		<b>6,124</b>	<b>5,652</b>	<b>108.4%</b>
Capital Expenditures		1,119	1,974	56.7%
Cash Flows		284	4,524	6.3%
Cash		24,255	28,495	85.1%
Working Capital		34,030	32,628	104.3%

First quarter results for the 2020 fiscal year came in better than expected. For the 3 months ending September 30, overall earnings (including depreciation) were slightly over \$5.6 million - exceeding budget expectations by \$473,000. Generally, the 1<sup>st</sup> quarter is the most profitable quarter given the influx of the tax credit donations and grant funds along with lower operating expenses during the quarter compared to open enrollment quarters.

Detailed financial statements are attached to this memo. The following are high level explanations of budget to actual variances.

### **Revenue**

Revenues were on target for the 1<sup>st</sup> quarter. At this point enrollments are running close to what was anticipated in the budget and we are close to the average premium levels. Revenues for Medicaid reimbursements are reported at the budgeted level for this quarter as we are refining the cost allocation model. Also, we received the full \$5 million of tax credit donations from the health plans in the first quarter. Finally, we received the final grant payment from the Colorado Health Foundation of \$500,000 in this quarter.

### **Expenditures**

Overall, operating expenses came in under budget for the quarter by \$430,000. Both the technology and service center business units were below budget for the quarter. The primary drivers for the lower (\$250,000) technology spend is due to timing of work on the modernization efforts. While we had a small delay in the start of some of the work we are still targeting completion prior to next years open enrollment. Customer service costs were below budget (\$230,000) primarily due to slower than expected internal staffing compared to budget. Outreach expenses came in slightly over budget (\$100,000) due to timing of spending, still on track for the year.

### **Cash**

Cash is running below forecasted levels due to some delays in collections of receivables for carrier fees and for Medicaid cost reimbursements. The carrier fee delay is due to the transitioning of the billing administration and is expected to be a one-time occurrence. The delay in payments for the Medicaid reimbursements is the result of changes in the data sources being used for the cost allocation. We are working closely with our state partners to resolve. Due to the explained variances described above, our cash balance is lower than what was anticipated by \$4.2 million. This is offset by a higher receivable balance. Overall working capital exceeds our forecasted level by \$1.4 million.

The cash metric of days cash on hand exceeded our target (210 days vs 120 days). This higher metric provides the needed reserves for future expected capital expenditures along with protection from operational and revenue impacts as the result of external factors. Excess cash was invested in a combination of money market and certificates of deposit. The average interest rate earned on these invested funds was 1.6% for the quarter compared to a budget assumption of 1%.

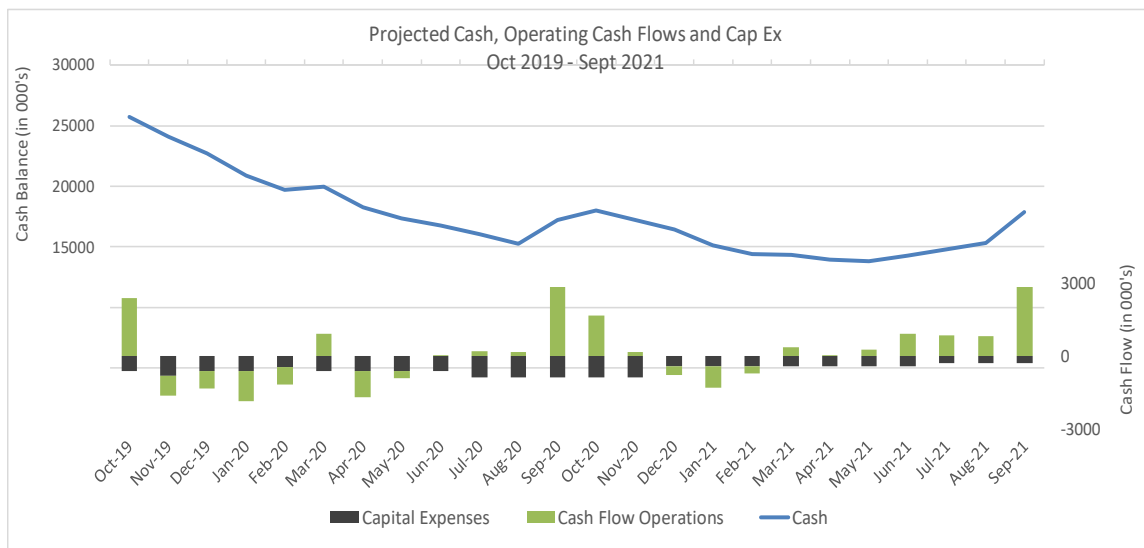
### **24 MONTH PROJECTIONS**

As part of our ongoing monitoring of long-term financial sustainability we regularly revise our long-range financial projections. Given the recent publication of 2020 insurance rates and based on our analysis of the impact of the rate changes we have updated our projections. Because of the significant impact of reinsurance on 2020 rates we have assumed average premiums will drop by

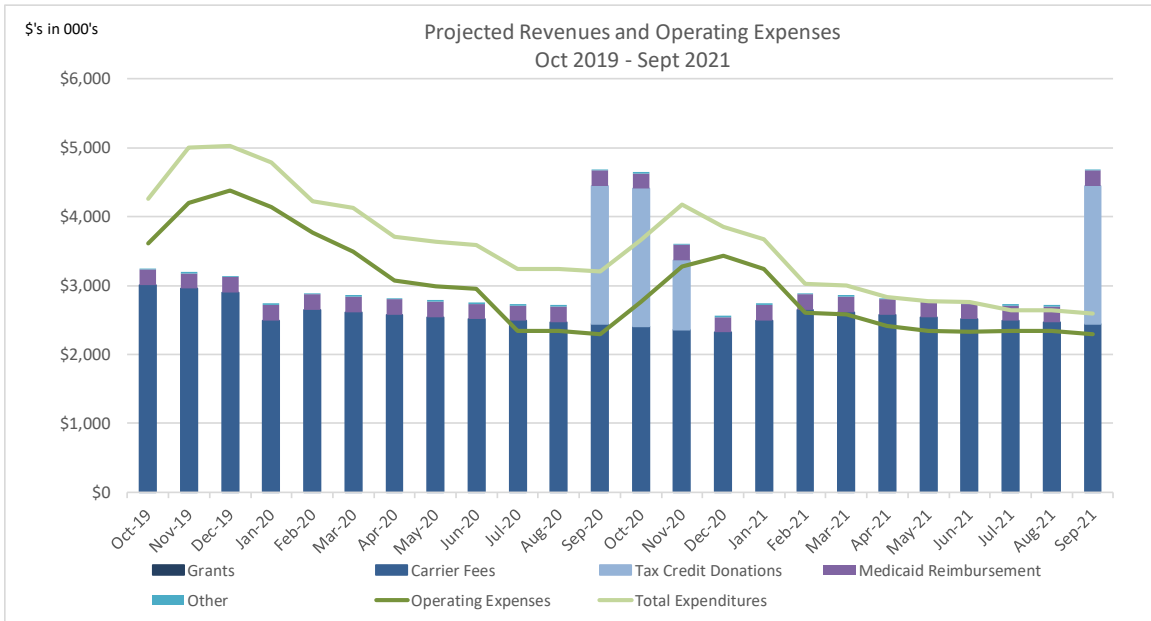
20% for the last 6 months of this fiscal year and continue at that level for the following year. The fiscal year 2020 budget did not originally anticipate this reduction.

Some of the key assumptions in the projections include:

- No changes in federal and state rules impacting the organization over the plan period.
- Enrollment projection is based on effectuated enrollment staying similar over the projection period (2019-2021) as the 2019 plan year (average of 141,000)
- Assumed a 20% decrease in medical premiums from 2019 levels starting in January 2020 – this results in a corresponding 20% reduction in carrier fee revenues. Assumed no change to current carrier fee structure.
- No new sources of revenue or increases in existing revenue streams are included in this projection. This is an area where the organization is actively pursuing and will adjust projections as additional revenue streams become more certain.
- Operating expenses for the 2020 fiscal year remain at budgeted levels. This assumption is being evaluated to determine possible areas of savings for the current fiscal year. For context, the 2020 budget was an increase over prior years due to the transition costs related to the customer service center and technology platform modernization efforts. For expenses beyond the current fiscal year (after June 2020) the projection assumes an overall reduction of 22% in operating expenses from the current fiscal year budget. This is the same assumption used in the fiscal year 2021 projections included with the fiscal year 2020 budget proposal. Areas where a significant reductions are expected to come from include the customer service and technology operations. Based on the current work with the customer service vendor and the in-flight technology modernization efforts we anticipate we can meet this expense reduction goals. We will be updating these assumptions as we move thru the transition process.



Also included in the cash projections are assumptions for capital investments over the projection period. No changes have been made to those assumptions. These investments are related to modernization efforts for the shopping and enrollment platform and underlying infrastructure along with changes to the customer service operations and technology. These investments are expected to result in significant expense reductions in future years as depicted in the chart below.



## Statement of Revenues, Expenses, and Changes in Net Position

Reporting Book:  
As of 9/30/2019

ACCRUAL

	FY 2020		
	3 months ending 9/30/19		
	Actual	Budget	Actual vs Budget
<b>REVENUE</b>			
Carrier Fee - Individual	9,235,331	9,261,387	(26,056)
Carrier Fee SHOP	-	-	-
Carrier Fee Vision	2,934	6,000	(3,066)
Grants	500,000	500,000	-
Tax Credit Donations	5,000,000	5,000,000	-
Medicaid Cost Reimbursement	675,000	675,000	-
Interest Income	130,131	60,000	70,131
Other revenue	313	-	313
<b>Total Revenue</b>	<b>15,543,709</b>	<b>15,502,387</b>	<b>41,322</b>
<b>EXPENSES</b>			
<b>Technology</b>			
Maintenance & Operation	1,971,159	2,023,332	(52,173)
Software/Licenses/Subscriptions (Tech)	161,955	141,342	20,613
Hosting	528,916	535,983	(7,067)
DDI (Design, Dev., Implementation)	103,383	317,301	(213,918)
<b>Total Technology</b>	<b>2,765,414</b>	<b>3,017,958</b>	<b>(252,545)</b>
<b>Customer Service</b>			
Customer Service Support	1,993,225	1,821,009	172,216
Customer Service Infrastructure/Facility	845,523	1,233,906	(388,383)
Medical Assistance	306,845	323,175	(16,330)
<b>Total Customer Service</b>	<b>3,145,592</b>	<b>3,378,090</b>	<b>(232,498)</b>
<b>Personnel</b>			
Salaries & Wages - Other	1,582,248	1,613,836	(31,588)
Taxes and Benefits	629,381	650,028	(20,647)
<b>Total Personnel</b>	<b>2,211,629</b>	<b>2,263,864</b>	<b>(52,235)</b>
<b>Marketing and Outreach</b>			
Media Buys - Radio/TV/Web	19,368	35,001	(15,633)
Outreach Services-Events, Sponsorships	94,440	67,250	27,190
Marketing Services	28,842	27,501	1,341
Assistance Network	604,746	517,497	87,249
<b>Total Marketing and Outreach</b>	<b>747,395</b>	<b>647,249</b>	<b>100,146</b>
<b>Facilities</b>			
Occupancy	120,215	120,972	(757)
Supplies & Materials	27,294	9,051	18,243
Postage/Shipping	407	948	(541)
Printing/Copying/Shred	3,658	5,251	(1,593)
Phone/Internet	16,691	20,601	(3,910)
Equipment/Furniture and Fixture	46,834	35,549	11,285
<b>Total Facilities</b>	<b>215,098</b>	<b>192,372</b>	<b>22,726</b>
<b>Support services</b>			
Public Affairs Services	19,000	30,000	(11,000)
Professional Services	122,175	94,751	27,424
Training and Development	16,585	43,200	(26,615)
H/R Services	66,717	37,625	29,092
Legal Services	738	11,982	(11,244)
Audit Services	15,000	10,000	5,000
<b>Total Support Services</b>	<b>240,215</b>	<b>227,558</b>	<b>12,657</b>
<b>Other</b>			
Insurance	23,143	57,500	(34,357)
Conferences/Meetings	9,444	9,731	(287)
Memberships/Dues/Subscriptions (Non-Tech)	22,240	24,738	(2,498)
Travel/Meals/Lodging	39,071	31,537	7,534
Other - G&A	67	51	16
<b>Total Other</b>	<b>93,965</b>	<b>123,557</b>	<b>(29,592)</b>
<b>Total Expenses</b>	<b>9,419,309</b>	<b>9,850,648</b>	<b>(431,339)</b>
<b>Net Income Before Depreciation</b>	<b>6,124,401</b>	<b>5,651,739</b>	<b>472,662</b>
Depreciation	494,841	494,841	-
<b>Net Income</b>	<b>5,629,560</b>	<b>5,156,898</b>	<b>472,662</b>

**Connect for Health Colorado  
Statement of Financial Position**

Reporting Book: ACCRUAL  
As of Date: 9/30/2019

	FY 2020 9/30/2019		Actual vs Budget
	Actual	Budget	
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	24,255,012	28,494,938	(4,239,926)
Accounts receivable (net)	14,163,572	9,329,788	4,833,784
Prepaid expenses	1,137,144	1,246,668	(109,524)
<b>Total Current assets:</b>	<b>39,555,728</b>	<b>39,071,394</b>	<b>484,334</b>
<b>Noncurrent asseets:</b>			
Security deposits	79,448	55,448	24,000
<b>Total Noncurrent asseets:</b>	<b>79,448</b>	<b>55,448</b>	<b>24,000</b>
<b>Capital assets:</b>			
Web portal development	44,777,404	45,685,138	(907,734)
Software	19,154,275	19,154,275	0
Leasehold improvements	1,916,058	1,916,058	0
Office equipment	1,058,909	1,031,036	27,873
Furniture and fixtures	1,112,696	1,088,081	24,615
Less accumulated depreciation	(62,090,499)	(62,470,658)	380,159
<b>Total Capital assets</b>	<b>5,928,843</b>	<b>6,403,929</b>	<b>(475,087)</b>
<b>Total Assets:</b>	<b>45,564,019</b>	<b>45,530,771</b>	<b>33,247</b>
<b>Liabilities and net position:</b>			
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	480,209	2,114,729	(1,634,521)
Accrued liabilities	3,353,015	2,514,353	838,662
Payroll liabilities	555,693	567,660	(11,967)
<b>Total Current liabilities:</b>	<b>4,388,916</b>	<b>5,196,742</b>	<b>(807,826)</b>
<b>Long-term liabilities:</b>			
Deferred rent long term	208,298	220,047	(11,748)
<b>Total Long-term liabilities:</b>	<b>208,298</b>	<b>220,047</b>	<b>(11,748)</b>
<b>Total Liabilities:</b>	<b>4,597,215</b>	<b>5,416,789</b>	<b>(819,574)</b>
<b>Net position:</b>			
Unrestricted	40,966,804	40,113,983	852,821
<b>Total Net position:</b>	<b>40,966,804</b>	<b>40,113,983</b>	<b>852,821</b>
<b>Total liabilities and net position:</b>	<b>45,564,019</b>	<b>45,530,772</b>	<b>33,247</b>