

**TO:** CONNECT FOR HEALTH COLORADO FINANCE AND OPERATIONS COMMITTEE  
**FROM:** BRIAN BRAUN, CHIEF FINANCIAL OFFICER  
**SUBJECT:** QUARTERLY FINANCIAL REPORT 2ND QUARTER FISCAL YEAR 2020  
**DATE:** 1/23/2020

Key Performance Indicators	Status	YTD - 6 Months Ending 12.31.19		
		Actual	Target	% of Target
Effectuated Enrollment		136,700	137,000	99.8%
Net Operating Margin	(1)	8.8%	9.2%	
Per Member Per Month (PMPM) - Carrier Fees		\$22.0	\$22.1	99.9%
Per Member Per Month (PMPM) - Operating Exp.		\$29.1	\$27.7	104.9%
Days Cash on Hand	(2)	194.5	120.0	162.1%
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 6 months of the year were close to targets for enrollments and overall financial results. PMPM expenses are running slightly higher than target – further discussion of operating expense overages are discussed below. The projection of cash flows has changed from the original budget for the year due to the decrease in carrier fee revenue for the 2020 plan year. Cash reserve levels continue to be in excess of our targeted level. A more detailed discussion of the revised projections is addressed further below.

Financial Results (in 000's)	Status	YTD - 6 Months Ending 12.31.19		
		Actual	Budget	% of Budget
<b>Revenues</b>				
Program Revenue		7,400	6,350	116.5%
Carrier Fees		18,072	18,132	99.7%
Grant/Other Revenue		699	620	112.8%
<b>Total Revenue</b>		<b>26,171</b>	<b>25,102</b>	<b>104.3%</b>
<b>Expenditures</b>				
Technology		6,511	5,976	108.9%
Customer Service		9,410	8,894	105.8%
Personnel		4,493	4,532	99.1%
Marketing and Outreach		2,447	2,344	104.4%
Facilities		424	366	115.8%
Support Services		399	487	81.9%
Other		174	195	89.5%
<b>Total Expenditures</b>		<b>23,857</b>	<b>22,793</b>	<b>104.7%</b>
<b>Earnings Before Depreciation</b>		<b>2,314</b>	<b>2,309</b>	<b>100.2%</b>
Capital Expenditures		2,611	4,058	64.3%
Cash Flows		(1,614)	146	-1102.5%
Cash		22,367	24,127	92.7%
Working Capital		28,178	28,953	97.3%

Overall the financial results for the first 6 months of the 2020 fiscal year are in line with expectations but there were variances at the revenue and expenditure level. Revenues came in above expectations, but this positive variance was countered by higher expenses in the 2<sup>nd</sup> quarter. This resulted in earnings from operations coming close to the budgeted level of \$2.3 million for the period. The 2<sup>nd</sup> quarter of the fiscal year is generally our highest quarter for expenditures due to the additional resourced needed for open enrollment.

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

### **Revenue**

Revenues exceeded target by a little over \$1 million as the result of a higher than budgeted level of Medicaid reimbursements for the period. While the reimbursement is an estimate for the period it is based on the revised reimbursement allocations for the 2<sup>nd</sup> half of the prior year which were higher than the originally budgeted levels for the current fiscal year. Prior reimbursement levels are being adjusted to reflect higher Medicaid allocation percentages. Carrier fees for the 6 months were on budget. Based on the results of the recent open enrollment we are expecting to see a drop in carrier fee revenue for the last 6 months of the fiscal year. This is further analyzed in the projection section of this memo.

### **Expenditures**

Overall, total expenditures (operating and capital) for the 6 months of \$26.5 million came in slightly below budgeted levels for the period of \$26.8 million. Operating expenses exceeded budget expectations by \$1 million. This overage was primarily the result of the treatment of some technology costs as operating expenses instead of capital expenditures along with higher service center vendor costs than originally anticipated in the budget as the result of the transition in service center contractors. Outreach expenses came in slightly over budget (\$100,000) due to timing of spending along with a slight increase in marketing expenses over budgeted levels for open enrollment.

### **Cash**

Cash is running below forecasted levels due to delays in the calculation and processing of Medicaid expense reimbursements. The delay is primarily the result of changes to some of the underlying eligibility determinations data used in calculating allocations resulting from the change over to the new eligibility system in the prior year. The new methodology is now in place and we expect to start receiving payments for prior quarters over the next 3 months. Due to the delay, our cash balance is lower than what was anticipated by \$1.8 million. This is offset by a higher receivable balance related to these outstanding expected payments. Overall, working capital is in line with budgeted levels.

The cash metric of days cash on hand exceeded our target (194 days vs 120 days). This metric has dropped by about 15 days since the prior report. This is expected due to the organization being in the middle of a heavy investment cycle related to both the service center transition and the modernization of the technology infrastructure. This trend is expected to continue for the next 12-18 months. Excess cash is invested in a combination of money market and certificates of deposit. The average interest rate earned on these invested funds was 1.5% for the period compared to a budget assumption of 1%.

## **PROJECTIONS**

As part of our ongoing monitoring of long-term financial sustainability we regularly revise the long-range financial projections. Now that we have a clearer picture of 2020 insurance premiums and enrollment levels, we have further revised our projections to reflect the expected impacts on the organization and the needed adjustments to expenditure levels to maintain a sufficient cash reserve level. Because of the significant impact of reinsurance on 2020 rates we have reduced the average premiums to be 23% lower than was anticipated in the FY 2020 budget for the last 6 months of this fiscal year (Jan-June) and subsequent periods. Also, at this point we are showing enrollments to be 2% below the prior year at the same point in time. We have made a corresponding decrease in our enrollment levels for the 2020 plan year.

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 starting in plan year 2020 is based on effectuated enrollment being 2% lower than the 2019 plan year enrollments (average of 141,000)
- Assumed a 23% decrease in medical premiums from 2019 levels starting in January 2020 – this results in a corresponding 23% reduction in carrier fee revenues for the post December 2019 period. Assumed no change to current carrier fee structure.
- Based on some of the changes in the Medicaid allocations expected Medicaid reimbursements were increased to be in line with anticipated reimbursement levels for 2019.
- No new sources of revenue or other 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 adjusted for the overage in the first 6 months of \$1 million. This assumption is being evaluated to determine possible areas of savings for the remainder of the current fiscal year. Given the transition to the new service center vendor and technology and extensive technology effort underway during the remainder of the fiscal year it will be difficult to make significant immediate expense reductions. For expenses beyond the current fiscal year (after June 2020) the projection assumes an overall reduction of 20% in operating expenses from the current projected fiscal year budget. Areas where a significant reductions are expected to come include the customer service and technology operations. With the current customer service transition and new contract along with the in-flight technology modernization efforts underway we are focused on meeting or exceeding these expense reduction goals. We will be updating these assumptions as we move thru the transition process/development process.

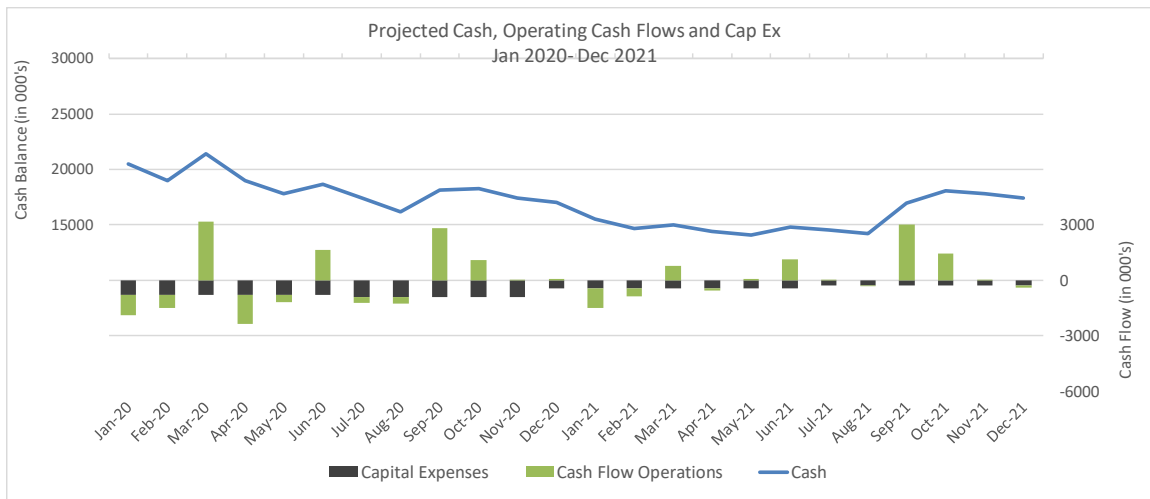
Providing more financial details, below is a comparison of the original budget for FY 2020 to projected FY 2020 along with revised FY 2021 projections.

	Fiscal Year 2020	Fiscal Year 2020	Fiscal Year 2021
	Budget	Projected	Projection
<i>\$'s in 000's</i>			
<b>Revenues</b>			
Carrier Fees	37,388	32,668	28,313
Tax Credit Donations	5,000	5,000	5,000
Grants	500	500	-
Cost Reimbursements	2,700	4,800	4,200
Interest/Other	240	319	240
<b>Total Revenue</b>	<b>45,828</b>	<b>43,287</b>	<b>37,753</b>
<b>Operating Expenses</b>			
Technology & Operations	13,493	13,993	10,604
Customer Service	15,677	16,177	10,642
Marketing and Outreach	5,386	5,386	5,422
Support Services	7,650	7,650	7,762
<b>Total Operating Expenses</b>	<b>42,206</b>	<b>43,206</b>	<b>34,430</b>
<b>Net Income Before Depreciation</b>	<b>3,622</b>	<b>81</b>	<b>3,323</b>
<b>Stabilized Depreciation *</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>
<b>Net Income</b>	<b>122</b>	<b>(3,419)</b>	<b>(177)</b>
<b>Capital Expenditures</b>	<b>7,707</b>	<b>7,300</b>	<b>7,500</b>

\* Stabilized depreciation reflects projected annual depreciation upon refresh of technology

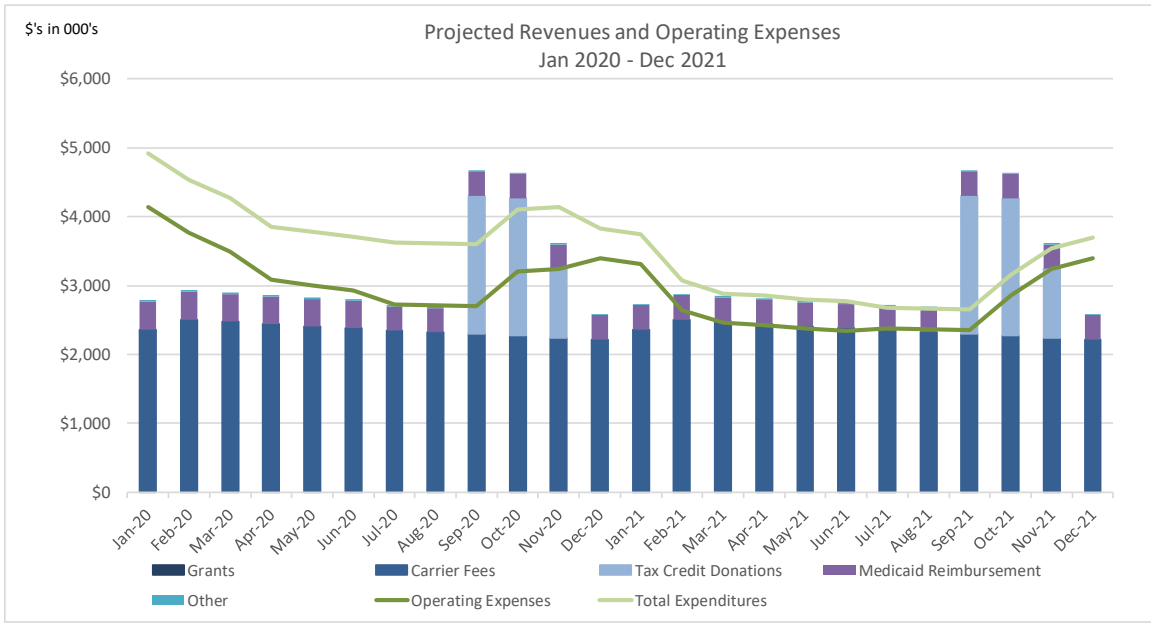
### Rolling 24 Month Projections

Consistent with prior reports we have updated our 24 month projections based on the assumptions noted above. The graph below depicts forecasted cash balances and cash flows.



Also included in the cash projections are assumptions for capital investments over the projection period. No changes have been made to those assumptions from prior projections. 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.

Depicted below are the forecasted revenue streams and expenditure levels for the next 24 months. This chart reflects the expected decline of operating expenses over the period as a result of the current investments being made in the service center and technology infrastructure.



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

Reporting Book:  
As of 12/31/2019

ACCRUAL

	FY 2020		
	6 months ending 12/31/19		
	Actual	Budget	Actual vs Budget
<b>REVENUE</b>			
Carrier Fee - Individual	18,054,986	18,120,436	(65,450)
Carrier Fee SHOP	-	-	-
Carrier Fee Vision	16,661	12,000	4,661
Grants	500,000	500,000	-
Tax Credit Donations	5,000,000	5,000,000	-
Medicaid Cost Reimbursement	2,400,000	1,350,000	1,050,000
Interest Income	196,074	120,000	76,074
Other revenue	3,205	-	3,205
<b>Total Revenue</b>	<b>26,170,925</b>	<b>25,102,436</b>	<b>1,068,489</b>
<b>EXPENSES</b>			
<b>Technology</b>			
Maintenance & Operation	4,024,354	4,009,546	14,808
Software/Licenses/Subscriptions (Tech)	393,213	279,684	113,529
Hosting	1,065,444	1,071,966	(6,522)
DDI (Design, Dev., Implementation)	1,027,621	614,603	413,018
<b>Total Technology</b>	<b>6,510,632</b>	<b>5,975,799</b>	<b>534,833</b>
<b>Customer Service</b>			
Customer Service Support	6,704,829	5,567,618	1,137,211
Customer Service Infrastructure/Facility	1,953,406	2,679,711	(726,305)
Medical Assistance	751,405	646,350	105,055
<b>Total Customer Service</b>	<b>9,409,639</b>	<b>8,893,679</b>	<b>515,961</b>
<b>Personnel</b>			
Salaries & Wages - Other	3,250,850	3,231,683	19,167
Taxes and Benefits	1,241,718	1,300,069	(58,351)
<b>Total Personnel</b>	<b>4,492,568</b>	<b>4,531,752</b>	<b>(39,184)</b>
<b>Marketing and Outreach</b>			
Media Buys - Radio/TV/Web	976,885	928,130	48,755
Outreach Services-Events, Sponsorships	179,335	134,500	44,835
Marketing Services	78,338	70,000	8,338
Assistance Network	1,212,282	1,210,998	1,284
<b>Total Marketing and Outreach</b>	<b>2,446,839</b>	<b>2,343,628</b>	<b>103,211</b>
<b>Facilities</b>			
Occupancy	244,098	241,944	2,154
Supplies & Materials	17,352	19,202	(1,850)
Postage/Shipping	1,201	1,899	(698)
Printing/Copying/Shred	9,554	10,702	(1,148)
Phone/Internet	54,650	41,202	13,448
Equipment/Furniture and Fixture	97,089	51,298	45,791
<b>Total Facilities</b>	<b>423,944</b>	<b>366,247</b>	<b>57,697</b>
<b>Support services</b>			
Public Affairs Services	38,000	55,000	(17,000)
Professional Services	211,904	179,502	32,402
Training and Development	43,259	103,400	(60,141)
H/R Services	85,422	75,250	10,172
Legal Services	1,273	23,964	(22,691)
Audit Services	19,069	50,000	(30,931)
<b>Total Support Services</b>	<b>398,926</b>	<b>487,116</b>	<b>(88,190)</b>
<b>Other</b>			
Insurance	46,286	80,000	(33,714)
Conferences/Meetings	8,426	14,962	(6,536)
Memberships/Dues/Subscriptions (Non-Tech)	43,377	49,476	(6,099)
Travel/Meals/Lodging	75,976	50,354	25,622
Other - G&A	379	102	277
<b>Total Other</b>	<b>174,444</b>	<b>194,894</b>	<b>(20,450)</b>
<b>Total Expenses</b>	<b>23,856,992</b>	<b>22,793,114</b>	<b>1,063,878</b>
Net Income Before Depreciation	2,313,933	2,309,322	4,611
Depreciation	1,070,480	1,070,480	-
<b>Net Income</b>	<b>1,243,453</b>	<b>1,238,842</b>	<b>4,611</b>

## Connect for Health Colorado Statement of Financial Position

Reporting Book: ACCRUAL  
As of Date: 12/31/2019

	FY 2020 12/31/2019		Actual vs Budget
	Actual	Budget	
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	22,366,539	24,126,568	(1,760,028)
Accounts receivable (net)	13,121,839	9,312,088	3,809,751
Prepaid expenses	2,056,452	938,449	1,118,003
<b>Total Current assets:</b>	<b>37,544,830</b>	<b>34,377,104</b>	<b>3,167,726</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	46,260,138	47,769,038	(1,508,901)
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	1,122,142	1,088,081	34,062
Less accumulated depreciation	(62,666,138)	(63,345,658)	679,520
<b>Total Capital assets</b>	<b>6,845,384</b>	<b>7,612,830</b>	<b>(767,446)</b>
<b>Total Assets:</b>	<b>44,469,662</b>	<b>42,045,382</b>	<b>2,424,280</b>
<b>Liabilities and net position:</b>			
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	2,120,079	1,722,387	397,692
Accrued liabilities	4,539,182	2,195,238	2,343,944
Payroll liabilities	651,070	567,660	83,410
<b>Total Current liabilities:</b>	<b>7,310,331</b>	<b>4,485,285</b>	<b>2,825,046</b>
<b>Long-term liabilities:</b>			
Deferred rent long term	193,995	165,388	28,607
<b>Total Long-term liabilities:</b>	<b>193,995</b>	<b>165,388</b>	<b>28,607</b>
<b>Total Liabilities:</b>	<b>7,504,326</b>	<b>4,650,673</b>	<b>2,853,653</b>
<b>Net position:</b>			
Unrestricted	36,965,336	37,394,709	(429,373)
<b>Total Net position:</b>	<b>36,965,336</b>	<b>37,394,709</b>	<b>(429,373)</b>
<b>Total liabilities and net position:</b>	<b>44,469,662</b>	<b>42,045,382</b>	<b>2,424,280</b>