

TO: CONNECT FOR HEALTH COLORADO FINANCE AND OPERATIONS COMMITTEE
FROM: BRIAN BRAUN, CHIEF FINANCIAL OFFICER
SUBJECT: 2ND QUARTER FY 2016 FINANCIAL REPORT
DATE: 1/21/2016

The net change in assets before depreciation for the 6 months ending December 31, 2015 exceeded budget expectations by \$220,000 (\$2.4 MM loss vs \$2.62 MM loss budgeted).

Key Financial Metrics
YTD Through 12/31/2015
(\$'s in 000's)

| | | Actuals (YTD) | Budget/Target (YTD) | % of Budget/Target |
|------------------------------------|-----|--------------------------|--------------------------------|-------------------------------|
| Financial Results | | | | |
| <i>Revenues</i> | | | | |
| Program Revenue | (1) | 14,751 | 17,644 | 83.6% |
| Grant Revenue | | 3,064 | 2,500 | 122.6% |
| Total Revenue | (1) | 22,826 | 25,147 | 90.8% |
| <i>Expenditures</i> | | | | |
| Customer Service | | 10,012 | 11,637 | 86.0% |
| Technology Operations | | 8,959 | 9,083 | 98.6% |
| General and Administrative | | 4,634 | 5,388 | 86.0% |
| Operations | | 829 | 753 | 110.0% |
| Marketing | | 791 | 906 | 87.3% |
| Total Expenditures | | 25,225 | 27,767 | 90.8% |
| Earnings Before Depreciation | | (2,399) | (2,620) | |
| Cash Flows | | (10,807) | (12,500) | |
| General Financial Metrics | | | | |
| Cash | | 21,661 | 16,000 | 135.4% |
| Working Capital | | 21,941 | 20,011 | 109.6% |
| Avg Effectuated Enrollment | | 112,466 | 124,388 | 90.4% |
| Avg Monthly Adm Fee Per Enrollee | (2) | 22.3 | 28.6 | 78.1% |
| Operating Expenses per Enrollee | | 224.3 | 223.2 | 100.5% |
| Operating Earnings/Program Revenue | | -16% | -15% | |

Program revenues (1) were lower than budget (\$14.8 million vs \$17.6 million) primarily due to the combination of lower covered lives reported for the special assessment fee than what was initially budgeted. The budget for special assessment revenue was derived from preliminary covered lives data that was overstated. The covered lives data is self-reported by the carriers and the initial counts used for the budget included some non-medical plan lives resulting in an overstatement of budgeted revenues.

Also contributing to the negative program revenue variance is the reserving of \$1 million in HealthOp fee revenue due to uncertainty of payment. Most of this reserve was set against the administration fee revenue resulting in a lower administration fee per enrollee (2).

Detailed financial statements are attached to this memo. Some of the more significant revenue and expense variances for the first six months were:

Revenue

Revenues for the period came in below budget by \$2.3 million for the 6 months. Aside from the negative special assessment fee variance and reserving of HealthOp revenues previously explained, there was a positive private grant revenue variance of \$564,000 used to fund special projects including assisting in the transition of HealthOp customers. Not included in the revenue variance is the recognition of Federal grant funds in this fiscal year due to prior audit findings disallowing certain prepaid expenditures made prior to the current fiscal year. A thorough review of prior year Federal expenditures is underway to assure compliance with Federal regulations. This may result in additional Federal grant revenue recorded for FY 2016.

Expenditures

Operating expenses came in \$2.5 million lower than budgeted expenses for the period. The operating expense variance consists of the following significant variances:

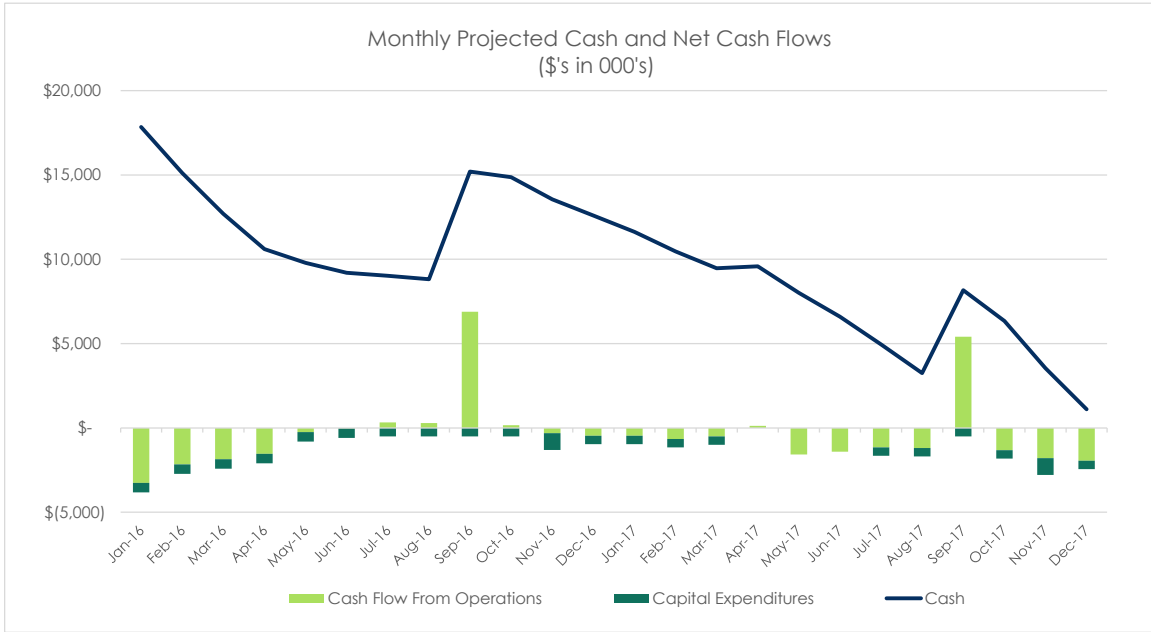
- Customer Service Center (\$-1.6 million) – the positive variance is the result of contract changes that were not fully incorporated into the original budget. These changes provided for a more predictable expenditure level and shifted some of the risk to the contractor for variability in call volumes.
- Marketing and Outreach (\$-115,000) – under budget resulting from timing of marketing campaigns – budget assumed higher level of spending in 1st quarter. Actual expenditures are expected to catch up/exceed budgeted amounts in the 3rd quarter as the result of increased marketing related to the HealthOp transition.
- Technology Operations (-\$123,000) – under budget due to timing of vendor contract work, savings are not expected to continue in future quarters.
- G&A Salary and Benefit Expenses (-\$755,000) – expenses lower than budget due primarily to postponing some hiring along with budget not accounting for staff attrition. Savings are expected to continue but at a smaller differential from the budget.

Rolling 24 Month Projection

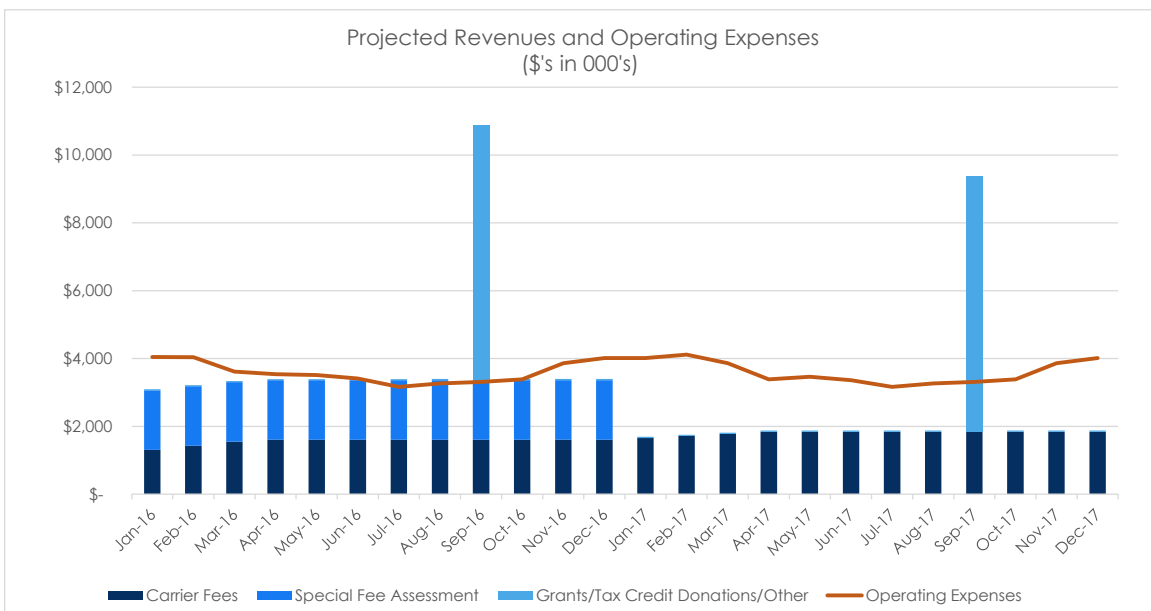
Based on current expenditure rates and staffing levels, and modest revenue assumptions, cash flow from the operations are sufficient to maintain a positive cash balance for the next 24 months. The key assumptions for the projection include:

- 10% increase in enrollment resulting from OE4 (this is in line with preliminary OE3 enrollment gains)
- No Medicaid cost allocation expense reimbursements (currently in cost allocation plan development/approval stage)
- New capital investments are capped at \$5 million per year

- Staffing level stays at 71 FTE
- Special Assessment Fee of \$1.80 ends after CY 2016, Carrier Fee stays at 3.5% of premiums
- Annual tax credit donation of \$5 million
- No new revenue streams or large increases in SHOP enrollment
- Additional funding is received to maintain the assistance network grant program



Light green bars represent cash flows from operations. The spikes in September each year are primarily the result of premium tax donations. Details on the components of revenue compared to operating expense levels is depicted in the graph below.



The line represents projected operating expenditures. Fee revenues in 2016 are projected to be sufficient to cover operating expenditures. As the result of the special fee assessment ending after 2016, a gap is created between operating expenses and fee revenues for 2017. The result of this gap is the utilization of cash reserves in this projection to assist in covering operating expenditures. Annual premium tax donations, capped at \$5 million, are not sufficient to fill the gap in 2017. Management is taking measures to fill this gap in 2017 including closely examining cost structures and related contractual relationships, continued partnership with the State and CMS in the development of a cost allocation methodology to recover costs related to Medicaid and exploring ways to increase fee revenues including increasing enrollment through further focusing marketing /outreach efforts.

Connect for Health Colorado
Statement of Activities - Consolidated
FY 2015 Budget to Actual
Six Months Ending December 31, 2015
Accrual Basis

| | Year To Date 12/31/2015 | | | Annual |
|---|----------------------------|--------------------|--------------------|---------------------|
| | Actual | Budget | Budget Diff | Budget |
| Revenue | | | | |
| Grant Revenue | | | | |
| Federal Grants | 4,985,362 | 4,985,362 | 0 | 4,985,362 |
| Health Foundation Grant | 3,063,800 | 2,500,000 | 563,800 | 2,500,000 |
| Total Grant Revenue | 8,049,162 | 7,485,362 | 563,800 | 7,485,362 |
| Program Revenue | | | | |
| Individual Fees | 2,510,453 | 3,554,600 | (1,044,147) | 14,681,660 |
| SHOP Fees | 71,716 | 89,474 | (17,758) | 512,974 |
| Market Assessment Fees | 7,168,715 | 9,000,000 | (1,831,285) | 21,960,000 |
| Tax Credit Donations | 5,000,000 | 5,000,000 | 0 | 5,000,000 |
| Total Program Revenue | 14,750,884 | 17,644,074 | (2,893,190) | 42,154,634 |
| Investment Income | 13,158 | 18,000 | (4,842) | 25,000 |
| Revenue - Other | 12,320 | 0 | 12,320 | 0 |
| Total Revenue | 22,825,524 | 25,147,436 | (2,321,912) | 49,664,996 |
| Expenditures | | | | |
| Customer Service | | | | |
| Customer Service Center | 8,461,507 | 10,075,826 | (1,614,319) | 18,873,085 |
| Assistance Network | 1,550,698 | 1,561,148 | (10,450) | 3,030,000 |
| Total Customer Service | 10,012,205 | 11,636,974 | (1,624,769) | 21,903,085 |
| Marketing | | | | |
| Total Marketing & Outreach | 790,848 | 905,750 | (114,902) | 1,364,000 |
| Technology | | | | |
| Technology Consulting | | | | |
| PMO | 240,735 | 210,000 | 30,735 | 420,000 |
| Security - Marketplace | 30 | 0 | 30 | 175,000 |
| Total Technology Consulting | 240,765 | 210,000 | 30,765 | 595,000 |
| Tech Implementation - CGI | 566,125 | 663,150 | (97,025) | 826,200 |
| Tech Implementation - Other | 136,144 | 65,617 | 70,527 | 139,267 |
| CGI Hosting | 922,584 | 978,258 | (55,674) | 1,956,516 |
| CGI Maint & Support | 1,458,318 | 1,456,318 | 2,000 | 3,362,636 |
| Oracle CX Licensing | 310,114 | 310,114 | 0 | 620,227 |
| Oracle Platform Maint & Support | 925,909 | 925,909 | 0 | 1,854,849 |
| hCentive Developer License | 815,450 | 844,099 | (28,649) | 1,658,197 |
| Healthation Support (CGI) | 31,893 | 31,893 | 0 | 31,893 |
| Non-CGI Hosting & Support | 184,314 | 167,558 | 16,757 | 254,413 |
| Shared Eligibility System | 2,468,513 | 2,451,933 | 16,580 | 2,623,600 |
| Carrier Support | 899,136 | 977,700 | (78,564) | 1,395,520 |
| Total Technology | 8,959,265 | 9,082,548 | (123,283) | 15,318,318 |
| Ops, Financial Management & Misc. Direct | | | | |
| Procurement and Financial Analysis | 240 | 9,000 | (8,760) | 18,000 |
| Operations Consulting | 710,996 | 684,000 | 26,996 | 1,373,000 |
| Training | 117,770 | 60,400 | 57,370 | 80,200 |
| Total Ops, Financial Management & Misc. Direct | 829,006 | 753,400 | 75,606 | 1,471,200 |
| Total Direct | 20,591,324 | 22,378,672 | (1,787,348) | 40,056,603 |
| General and Administrative Expenses | | | | |
| Salary and Wages | 2,694,118 | 3,317,457 | (623,339) | 6,854,234 |
| PR Benefits | 903,238 | 1,062,306 | (159,068) | 2,201,356 |
| Conferences, Conventions, and Meetings | 42,749 | 21,600 | 21,149 | 43,200 |
| Copying and Printing | 15,420 | 13,200 | 2,220 | 26,400 |
| Due and Subscriptions | 16,789 | 1,200 | 15,589 | 2,400 |
| Insurance | 49,053 | 49,200 | (147) | 98,400 |
| Miscellaneous Expense | 603 | 200 | 403 | 400 |
| Occupancy | 246,161 | 254,500 | (8,339) | 509,000 |
| Office Supplies | 70,108 | 60,000 | 10,108 | 82,000 |
| Professional Fees | 389,144 | 451,237 | (62,093) | 840,710 |
| Telecommunication | 174,204 | 110,400 | 63,804 | 220,800 |
| Travel Expenses | 32,018 | 47,200 | (15,182) | 94,400 |
| Total General and Administrative Expenses | 4,633,605 | 5,388,500 | (754,895) | 10,973,300 |
| Depreciation | 5,592,672 | 5,700,000 | (107,328) | 11,400,000 |
| Total Expenditures | 30,817,601 | 33,467,172 | (2,649,571) | 62,429,903 |
| Change In Net Assets | (7,992,077) | (8,319,736) | 327,659 | (12,764,907) |
| + Net Assets - Beginning | 67,926,163 | 67,926,163 | 67,926,163 | 67,926,163 |

**Connect for Health Colorado
Statement of Financial Position
As of 12/31/2015
Accrual Basis**

| | Year To Date 12/31/2015 | Prior Year To Date 12/31/2014 | |
|--|----------------------------|----------------------------------|---------------------|
| | Current Year Balance | Prior Year Balance | Net Change |
| Assets | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | 21,660,562 | 37,702,038 | (16,041,476) |
| Accounts Receivable, Net | 5,325,172 | 7,690,414 | (2,365,242) |
| Grants Receivable | 53,714 | 13,518,423 | (13,464,709) |
| Other Current Assets | | | |
| Pre-Paid Expenses | | | |
| Prepaid Ins Rent & Misc | 172,214 | 164,812 | 7,402 |
| Prepaid Software & Support | 4,819,616 | 6,605,942 | (1,786,326) |
| Prepaid Network Grantee Advances | 0 | 8,416 | (8,416) |
| Total Pre-Paid Expenses | 4,991,830 | 6,779,170 | (1,787,340) |
| Total Other Current Assets | 4,991,830 | 6,779,170 | (1,787,340) |
| Total Current Assets | 32,031,278 | 65,690,045 | (33,658,767) |
| Long-term Assets | | | |
| Property & Equipment | | | |
| Furniture & Fixtures | 833,775 | 824,991 | 8,783 |
| Equipment | 1,117,696 | 1,080,611 | 37,086 |
| Software Licenses | 13,356,446 | 13,356,447 | 0 |
| Marketplace Development | 36,310,727 | 33,161,246 | 3,149,480 |
| Informational Website | 200,268 | 200,268 | 0 |
| Ptarmigan Tenant Improvements | 125,435 | 125,435 | 0 |
| CSC Tenant Improvements | 1,818,206 | 1,818,207 | 0 |
| Total Property & Equipment | 53,762,553 | 50,567,205 | 3,195,349 |
| Accumulated Depreciation | | | |
| Accum Depr - Furniture & Fixtures | (268,130) | (149,109) | (119,023) |
| Accum Depr - Equipment | (481,347) | (263,926) | (217,420) |
| Accum Amort - Software License | (6,565,218) | (3,948,578) | (2,616,641) |
| Accum Depr - Marketplace Development | (12,890,643) | (5,268,364) | (7,622,278) |
| Accum Depr - Informational Website | (79,322) | (37,432) | (41,890) |
| Accum Depr - Ptarmigan Tenant Improvements | (55,809) | (26,577) | (29,232) |
| Accum Depr - CSC Tenant Improvements | (603,514) | (343,223) | (260,291) |
| Total Accumulated Depreciation | (20,943,983) | (10,037,209) | (10,906,775) |
| Other Long-term Assets | 172,624 | 20,719 | 151,904 |
| Total Long-term Assets | 32,991,194 | 40,550,715 | (7,559,522) |
| Total Assets | 65,022,472 | 106,240,760 | (41,218,289) |
| Liabilities | | | |
| Liabilities | | | |
| Short-term Liabilities | | | |
| Accounts Payable | 3,376,850 | 13,906,039 | (10,529,189) |
| Accrued Liabilities | | | |
| Accrued Payroll, PR Tax & Benefits | 320,894 | 236,663 | 84,231 |
| Accrued Liabilities - Vendor | 1,144,000 | 5,484,628 | (4,340,628) |
| Accrued CGI Hosting | 201,040 | 431,096 | (230,056) |
| Accrued Retainage Payable | 0 | 481,000 | (481,000) |
| Total Accrued Liabilities | 1,665,934 | 6,633,387 | (4,967,453) |
| Deferred Revenue | 0 | 8,416 | (8,416) |
| Other Short-term Liabilities | 2,165 | 5,015 | (2,850) |
| Total Short-term Liabilities | 5,044,949 | 20,552,857 | (15,507,908) |
| Long Term Liabilities | | | |
| Other Long-term Liabilities | 43,437 | 30,205 | 13,232 |
| Total Long Term Liabilities | 43,437 | 30,205 | 13,232 |
| Total Liabilities | 5,088,386 | 20,583,062 | (15,494,676) |
| Net Assets | | | |
| Unrestricted | 59,934,086 | 85,657,698 | (25,723,613) |
| Total Net Assets | 59,934,086 | 85,657,698 | (25,723,613) |