

TO: CONNECT FOR HEALTH COLORADO FINANCE AND OPERATIONS COMMITTEE
FROM: BRIAN BRAUN, CHIEF FINANCIAL OFFICER
SUBJECT: 3RD QUARTER FY 2016 FINANCIAL REPORT
DATE: 5/4/2016

Key Metrics

	Actual	Baseline	
Cumulative Covered Lives - (Plan Year 2016 to date*)	178,908	194,000	Yellow
Effectuated Enrollments by Channel (Plan Year 2016 to date)	Broker - 48.5%	Broker - 50.0%	Green
	Non-Broker (HCG, Customer Service Center, Self Service - 51.5%)	Non-Broker (HCG, Customer Service Center, Self Service - 50%)	
Percentage of Calls Answered in 300 seconds (Qtr/Plan Year 2016 to date)	84%/75%	80%	Yellow
Average Number of Hours System is Down per Month (Qtr/Plan Year to Date)	15/18 Minutes	1 Hr 26 Minutes	Green
Months of Cash (based on projected net burn rate)	22	12	Green
Net Operating Ratio (Revenue-Expense)/Revenue (9 months ending 3/31/15)	-15%	-12%	Yellow
Average Monthly Operating Expenses Per Effectuated Enrollee (9 months ending 3/31/15)	\$37.23	\$34.97	Yellow

Financial Overview

The net change in assets before depreciation for the 9 months ending March 31, 2016 was slightly below budget expectations by \$158,000 (\$3.7 MM loss vs \$3.5MM loss budgeted).

Program revenues continued to run lower than budget (\$25.5 million vs \$29.3 million) primarily due to the combination of lower covered lives reported for the special assessment fee than what was initially budgeted and lower than budgeted effectuated enrollment for the carrier fee. The budget for special assessment revenue was derived based on preliminary covered lives data that was overstated. The covered lives data used to compute the budget was self-reported by the carriers and the initial counts used for the budget included some ineligible non-medical plan lives resulting in an overstatement of budgeted revenues for the year.

The table below summarizes the financial results through March 31, 2016. Detailed financial statements are attached to this memo.

		Actuals (YTD)	Budget/Target (YTD)	% of Budget/Target
Financial Results as of 3/31/16				
<i>Revenues</i>				
Program Revenue	■	25,451	29,280	86.9%
Grant Revenue	■	8,411	7,847	107.2%
Total Revenue	■	33,981	37,149	91.5%
<i>Expenditures</i>				
Customer Service	■	16,489	17,943	91.9%
Technology Operations	■	11,923	12,176	97.9%
General and Administrative	■	7,051	8,189	86.1%
Operations	■	1,216	1,116	108.9%
Marketing	■	1,002	1,265	79.2%
Total Expenditures	■	37,680	40,690	92.6%
Earnings Before Depreciation	■	(3,699)	(3,541)	
Cash Flows	■	(16,947)	(17,500)	
Cash	■	15,611	11,000	141.9%
Working Capital	■	19,562	16,000	122.3%
Avg Effectuated Enrollment	■	109,706	129,303	84.8%

Some of the more significant revenue and expense variances for the nine months were:

Revenue

Revenue for the period came in below budget by \$3.8 million for the 9 months. Aside from the negative special assessment fee variance, there was a positive grant variance of \$564,000 used to fund special projects including assisting in the transition of HealthOp customers. Carrier administration fee revenue is running \$713,000 below budget for the year primarily due to lower effectuated enrollment. OE3 effectuated enrollment appears to be low in relation to the level of submitted enrollments for the plan year. The carrier coordination and business intelligence teams are reviewing the effectuated enrollment data for OE3 to determine if there were any issues in enrollment data transfers with the carriers. Any corrections will be retroactively applied. 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.

Expenditures

Operating expenses came in at \$3.0 million lower than budget expenses for the period, excluding depreciation expense. The operating expense variance consists of the following significant variances:

- Customer Service Center (-\$1.5 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 (-\$262,000) - under budget resulting from timing of marketing campaigns, budget assumed higher level of spending in the 1st & 2nd quarter. Actual expenditures are expected to catch up/exceed budgeted amounts in the 4th quarter as the result of increased marketing related to the HealthOp transition.

- Technology Operations (-\$254,000) - under budget due to timing of vendor contract work, savings are not expected to continue in future quarters.

- G&A Salary and Benefit Expenses (-\$1.1 million) - 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.

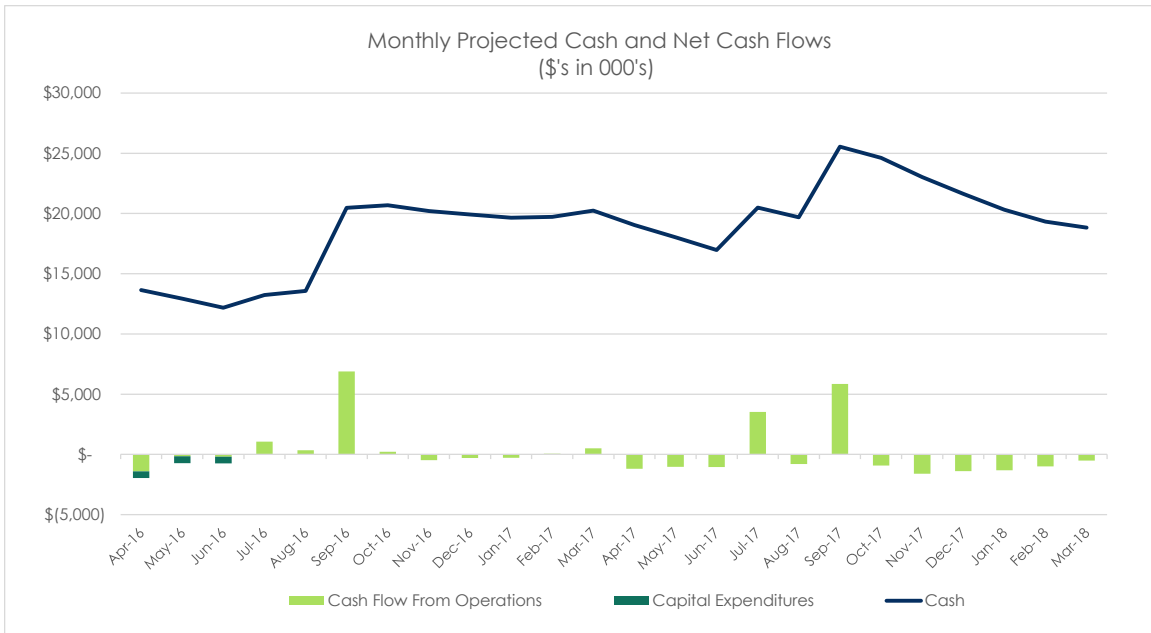
Cash

The cash balance at March 31, 2016 was \$4.6 million higher than budget projections. This difference is primarily due to starting the fiscal year at a higher cash balance than anticipated in the budget. Cash decreased by \$16.9 million during the nine months ending March 31, 2016, which was slightly better than budget expectations. In addition to the impact of the operating loss on cash, one of the contributors to the decrease in cash for the period related to large vendor liabilities incurred in the prior fiscal year and paid in the current year (\$3.4 million). Also contributing to the decrease in cash was \$3 million in marketplace software enhancements during the period along with non-cash revenue recognized due to the Federal revenue from the prior year (\$5 million).

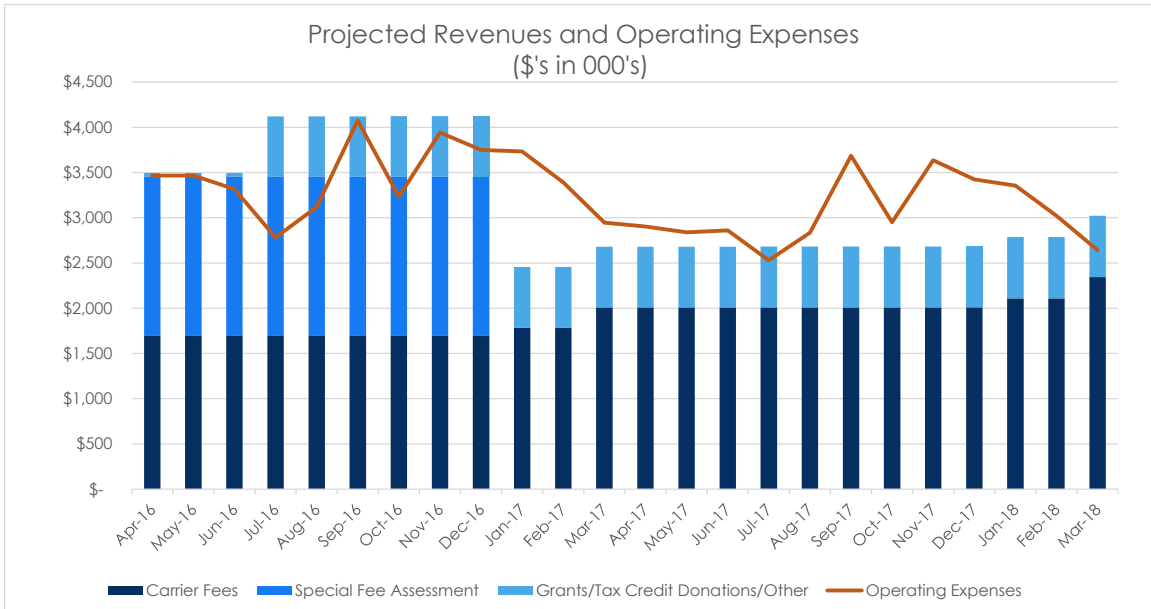
Rolling 24 Month Projection

Based on the initial draft budget for FY 2017, along with modest revenue assumptions and continued cost structure streamlining over the next 24 months, cash flow from operations are projected to be sufficient to maintain a positive cash balance during the period and result in the building of a capital expenditure reserve during the period. The key assumptions for the projection include:

- 10% increase in enrollment resulting from OE4 and OE5
- No Medicaid cost allocation expense reimbursements (currently in cost allocation plan development/approval stage)
- New capital investments are funded through a capital expenditure reserve.
- 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
- Cost structure streamlining to reduce operating costs – accomplished through combination of vendor contract restructuring, continuous business improvements and investment in high ROI projects



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. Management is adopting streamlining measures for 2017 and beyond to bring operating expenses in line with projected reduced levels of revenues.

Connect for Health Colorado
Statement of Activities - Consolidated
FY 2016 Budget to Actual
Nine Months Ending March 31, 2016
Accrual Basis

	Year To Date 03/31/2016			Annual
	Actual	Budget	Budget Diff	Budget
Revenue				
Grant Revenue				
Federal Grants	5,346,701	5,346,701	0	5,346,701
Health Foundation Grant	3,063,800	2,500,000	563,800	2,500,000
Total Grant Revenue	8,410,501	7,846,701	563,800	7,846,701
Program Revenue				
Individual Fees	7,808,207	8,524,600	(716,393)	14,681,660
SHOP Fees	178,873	275,779	(96,906)	512,974
Market Assessment Fees	12,463,568	15,480,000	(3,016,432)	21,960,000
Medicaid Reimbursement	0	0	0	2,500,000
Tax Credit Donations	5,000,000	5,000,000	0	5,000,000
Total Program Revenue	25,450,648	29,280,379	(3,829,731)	44,654,634
Investment Income	20,006	22,000	(1,994)	25,000
Revenue - Other	99,906	0	99,906	0
Total Revenue	33,981,061	37,149,080	(3,168,019)	52,526,335
Expenditures				
Total Customer Service Center	14,274,736	15,571,956	(1,297,220)	18,873,085
Assistance Network	2,213,797	2,371,352	(157,555)	3,030,000
Total Customer Service	16,488,533	17,943,308	(1,454,775)	21,903,085
Marketing				
Total Marketing & Outreach	1,001,667	1,264,500	(262,833)	1,364,000
Technology				
Technology Consulting				
PMO	240,735	315,000	(74,265)	420,000
Security - Marketplace	30	0	30	175,000
Total Technology Consulting	240,765	315,000	(74,235)	595,000
Tech Implementation - CGI	791,280	769,700	21,580	826,200
Tech Implementation - Other	243,091	102,517	140,574	139,267
CGI Hosting	1,379,960	1,467,387	(87,427)	1,956,516
CGI Maint & Support	2,187,477	2,409,477	(222,000)	3,362,636
Oracle CX Licensing	465,170	465,171	(1)	620,227
Oracle Platform Maint & Support	1,390,379	1,390,379	0	1,854,849
hCentive Developer License	1,212,426	1,251,148	(38,722)	1,658,197
Healthation Support (CGI)	37,208	31,893	5,315	31,893
Non-CGI Hosting & Support	241,080	221,488	19,593	254,413
Shared Eligibility System	2,508,149	2,537,767	(29,618)	2,623,600
Carrier Support	1,225,696	1,214,560	11,136	1,395,520
Total Technology	11,922,681	12,176,485	(253,804)	15,318,318
Ops, Financial Management & Misc. Direct				
Procurement and Financial Analysis	240	13,500	(13,260)	18,000
Operations Consulting	1,098,195	1,030,000	68,195	1,373,000
Training	117,770	72,800	44,970	80,200
Total Ops, Financial Management & Misc. Direct	1,216,205	1,116,300	99,905	1,471,200
Total Direct	30,629,086	32,500,593	(1,871,507)	40,056,603
General and Administrative Expenses				
Salary and Wages	4,098,811	5,083,751	(984,940)	6,854,234
PR Benefits	1,384,314	1,631,189	(246,875)	2,201,356
Conferences, Conventions, and Meetings	80,554	32,400	48,154	43,200
Copying and Printing	22,373	19,800	2,573	26,400
Due and Subscriptions	29,289	1,800	27,489	2,400
Insurance	72,632	73,800	(1,168)	98,400
Miscellaneous Expense	4,079	300	3,779	400
Occupancy	374,421	381,750	(7,329)	509,000
Office Supplies	92,832	71,000	21,832	82,000
Professional Fees	618,843	657,257	(38,414)	840,710
Telecommunication	227,545	165,600	61,945	220,800
Travel Expenses	45,617	70,800	(25,183)	94,400
Total General and Administrative Expenses	7,051,310	8,189,447	(1,138,137)	10,973,300
Depreciation	8,985,572	8,991,000	(5,428)	11,988,000
Total Expenditures	46,665,968	49,681,040	(3,015,072)	63,017,903
Change in Net Assets	(12,684,907)	(12,531,960)	(152,947)	(10,491,568)
+ Net Assets - Beginning	69,534,321	69,534,321	0	69,534,321
Net Assets - Ending	56,849,414	57,002,361	(152,947)	59,042,753

Connect for Health Colorado
Statement of Financial Position
As of March 31, 2016
Accrual Basis

	Year To Date		
	03/31/2016	03/31/2015	
	Year Balance	Year Balance	Net Change
Assets			
Current Assets			
Cash and Cash Equivalents	15,610,627	38,649,259	(23,038,632)
Accounts Receivable, Net	10,904,791	7,596,574	3,308,216
Grants Receivable	220,626	(2,131,091)	2,351,717
Other Current Assets			
Pre-Paid Expenses			
Prepaid Ins Rent & Misc	138,926	138,102	825
Prepaid Software & Support	4,622,018	6,449,412	(1,827,393)
Prepaid Network Grantee Advances	0	13,199	(13,200)
Total Pre-Paid Expenses	4,760,944	6,600,713	(1,839,768)
Total Other Current Assets	4,760,944	6,600,713	(1,839,768)
Total Current Assets	31,496,988	50,715,455	(19,218,467)
Long-term Assets			
Property & Equipment			
Furniture & Fixtures	833,775	834,442	(666)
Equipment	1,117,697	1,083,698	33,997
Software Licenses	13,356,446	13,356,446	0
Marketplace Development	39,229,575	35,277,744	3,951,832
Informational Website	200,267	200,268	(1)
Ptarmigan Tenant Improvements	125,435	125,435	0
CSC Tenant Improvements	1,818,207	1,818,207	0
Total Property & Equipment	56,681,402	52,696,240	3,985,162
Accumulated Depreciation			
Accum Depr - Furniture & Fixtures	(297,909)	(178,755)	(119,153)
Accum Depr - Equipment	(536,693)	(318,389)	(218,305)
Accum Amort - Software License	(7,219,379)	(4,602,738)	(2,616,641)
Accum Depr - Marketplace Development	(15,627,166)	(7,089,621)	(8,537,545)
Accum Depr - Informational Website	(89,795)	(47,955)	(41,839)
Accum Depr - Ptarmigan Tenant Improvements	(63,117)	(33,886)	(29,232)
Accum Depr - CSC Tenant Improvements	(668,586)	(408,295)	(260,291)
Total Accumulated Depreciation	(24,502,645)	(12,679,639)	(11,823,006)
Other Long-term Assets	172,623	20,719	151,904
Total Long-term Assets	32,351,380	40,037,320	(7,685,940)
Total Assets	63,848,368	90,752,775	(26,904,407)
Liabilities			
Liabilities			
Short-term Liabilities			
Accounts Payable	6,100,527	10,063,516	(3,962,990)
Accrued Liabilities			
Accrued Payroll, PR Tax & Benefits	330,734	225,256	105,479
Accrued Liabilities - Vendor	335,000	1,975,083	(1,640,083)
Accrued CGI Hosting	184,287	577,386	(393,099)
Accrued Retainage Payable	0	481,000	(481,000)
Total Accrued Liabilities	850,021	3,258,725	(2,408,703)
Deferred Revenue	0	13,200	(13,200)
Other Short-term Liabilities	2,751	2,236	515
Total Short-term Liabilities	6,953,299	13,337,677	(6,384,378)
Long Term Liabilities			
Other Long-term Liabilities	45,655	34,292	11,363
Total Long Term Liabilities	45,655	34,292	11,363
Total Liabilities	6,998,954	13,371,969	(6,373,015)
Net Assets			
Unrestricted	56,849,414	77,380,806	(20,531,392)
Total Net Assets	56,849,414	77,380,806	(20,531,392)
Total Liabilities & Net Assets	63,848,368	90,752,775	(26,904,407)