

**TO:** CONNECT FOR HEALTH COLORADO FINANCE AND OPERATIONS COMMITTEE  
**FROM:** BRIAN BRAUN, CHIEF FINANCIAL OFFICER  
**SUBJECT:** 3<sup>RD</sup> QUARTER FY 2016 FINANCIAL REPORT  
**DATE:** 4/22/2016

**Key Metrics**

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

**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<br>(YTD) | Budget/Target<br>(YTD) | % of<br>Budget/Target |
|--|--|------------------|------------------------|-----------------------|
| <b>Financial Results as of 3/31/16</b> |  |                  |                        |                       |
| <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.

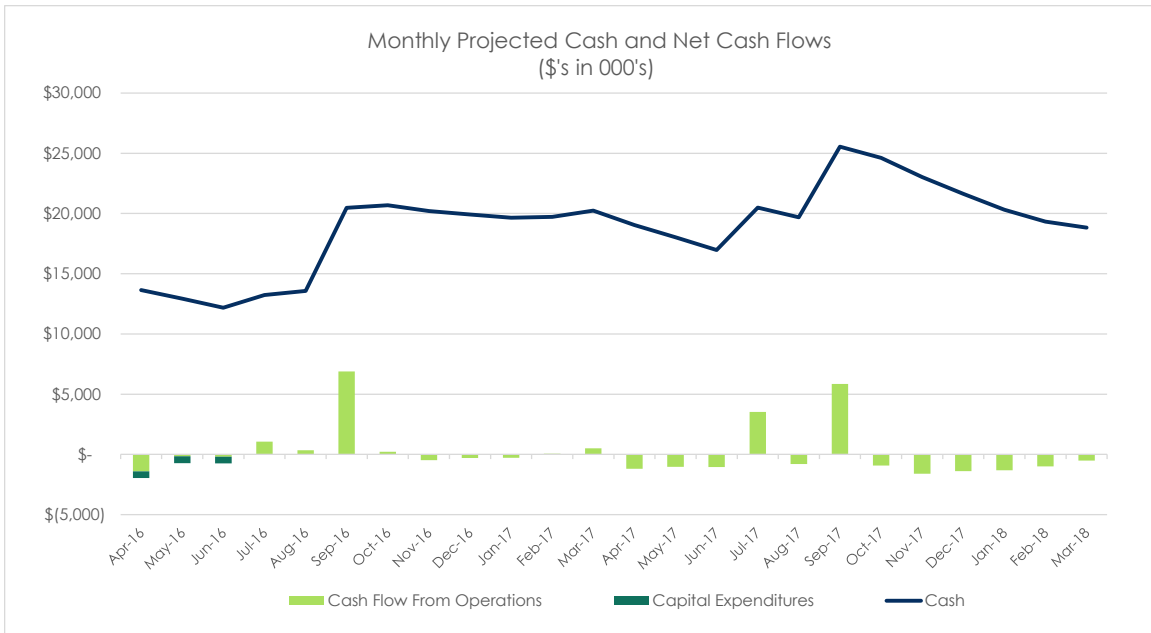
### **Cash**

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).

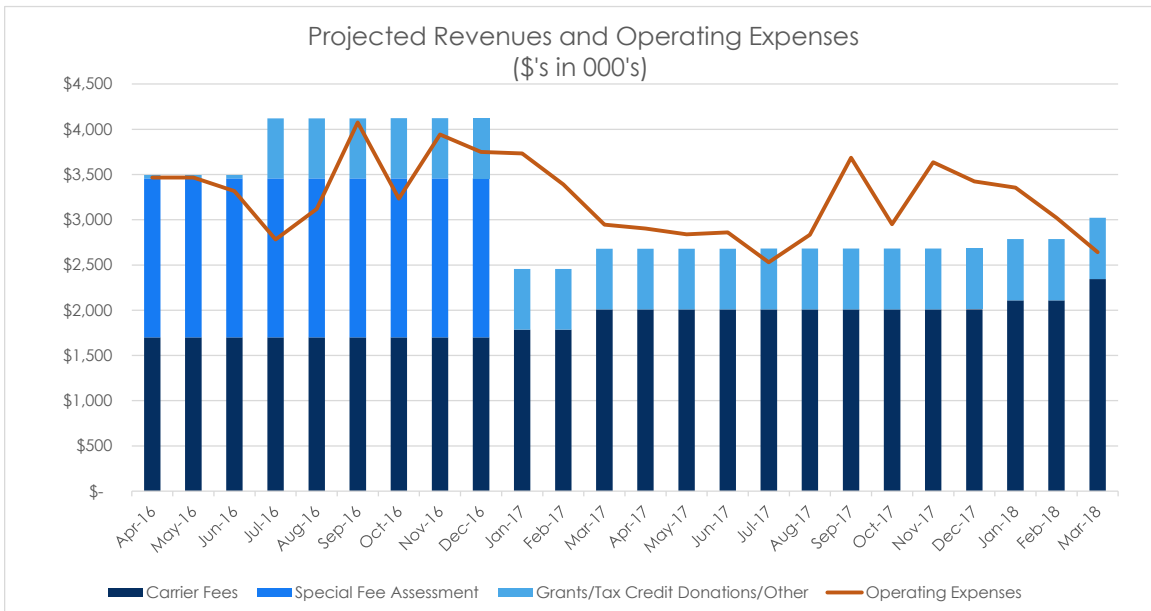
### **Rolling 24 Month Projection**

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<br>03/31/2016 |                     |                  | Annual              |
|--|----------------------------|---------------------|------------------|---------------------|
|  | Actual                     | Budget              | Budget Diff      | Budget              |
| <b>Revenue</b>                                 |                            |                     |                  |                     |
| 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          |
| <b>Expenditures</b>                            |                            |                     |                  |                     |
| 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          |
| <b>Change in Net Assets</b>                    | <b>(12,684,907)</b>        | <b>(12,531,960)</b> | <b>(152,947)</b> | <b>(10,491,568)</b> |
| <b>+ Net Assets - Beginning</b>                | <b>69,534,321</b>          | <b>69,534,321</b>   | <b>0</b>         | <b>69,534,321</b>   |
| <b>Net Assets - Ending</b>                     | <b>56,849,414</b>          | <b>57,002,361</b>   | <b>(152,947)</b> | <b>59,042,753</b>   |

**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          |
| <b>Assets</b>                              |                     |                     |                     |
| <b>Current Assets</b>                      |                     |                     |                     |
| 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           |
| <b>Other Current Assets</b>                |                     |                     |                     |
| <b>Pre-Paid Expenses</b>                   |                     |                     |                     |
| 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)            |
| <b>Total Pre-Paid Expenses</b>             | <b>4,760,944</b>    | <b>6,600,713</b>    | <b>(1,839,768)</b>  |
| <b>Total Other Current Assets</b>          | <b>4,760,944</b>    | <b>6,600,713</b>    | <b>(1,839,768)</b>  |
| <b>Total Current Assets</b>                | <b>31,496,988</b>   | <b>50,715,455</b>   | <b>(19,218,467)</b> |
| <b>Long-term Assets</b>                    |                     |                     |                     |
| <b>Property &amp; Equipment</b>            |                     |                     |                     |
| 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                   |
| <b>Total Property &amp; Equipment</b>      | <b>56,681,402</b>   | <b>52,696,240</b>   | <b>3,985,162</b>    |
| <b>Accumulated Depreciation</b>            |                     |                     |                     |
| 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)           |
| <b>Total Accumulated Depreciation</b>      | <b>(24,502,645)</b> | <b>(12,679,639)</b> | <b>(11,823,006)</b> |
| <b>Other Long-term Assets</b>              | <b>172,623</b>      | <b>20,719</b>       | <b>151,904</b>      |
| <b>Total Long-term Assets</b>              | <b>32,351,380</b>   | <b>40,037,320</b>   | <b>(7,685,940)</b>  |
| <b>Total Assets</b>                        | <b>63,848,368</b>   | <b>90,752,775</b>   | <b>(26,904,407)</b> |
| <b>Liabilities</b>                         |                     |                     |                     |
| <b>Liabilities</b>                         |                     |                     |                     |
| <b>Short-term Liabilities</b>              |                     |                     |                     |
| Accounts Payable                           | 6,100,527           | 10,063,516          | (3,962,990)         |
| <b>Accrued Liabilities</b>                 |                     |                     |                     |
| 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)           |
| <b>Total Accrued Liabilities</b>           | <b>850,021</b>      | <b>3,258,725</b>    | <b>(2,408,703)</b>  |
| Deferred Revenue                           | 0                   | 13,200              | (13,200)            |
| Other Short-term Liabilities               | 2,751               | 2,236               | 515                 |
| <b>Total Short-term Liabilities</b>        | <b>6,953,299</b>    | <b>13,337,677</b>   | <b>(6,384,378)</b>  |
| <b>Long Term Liabilities</b>               |                     |                     |                     |
| Other Long-term Liabilities                | 45,655              | 34,292              | 11,363              |
| <b>Total Long Term Liabilities</b>         | <b>45,655</b>       | <b>34,292</b>       | <b>11,363</b>       |
| <b>Total Liabilities</b>                   | <b>6,998,954</b>    | <b>13,371,969</b>   | <b>(6,373,015)</b>  |
| <b>Net Assets</b>                          |                     |                     |                     |
| Unrestricted                               | 56,849,414          | 77,380,806          | (20,531,392)        |
| <b>Total Net Assets</b>                    | <b>56,849,414</b>   | <b>77,380,806</b>   | <b>(20,531,392)</b> |
| <b>Total Liabilities &amp; Net Assets</b>  | <b>63,848,368</b>   | <b>90,752,775</b>   | <b>(26,904,407)</b> |