

TO: CONNECT FOR HEALTH COLORADO FINANCE AND OPERATIONS COMMITTEE

4600 South Ulster Street | Suite 300
Denver, CO 80237

FROM: BRIAN BRAUN, CHIEF FINANCIAL OFFICER

SUBJECT: QUARTERLY FINANCIAL REPORT 4TH QUARTER FY 2020 (PRELIMINARY)

DATE: 8/20/2020

OVERVIEW (12 months ending 6/30/20)

Key Performance Indicators	Status	YTD - 12 Months Ending 06.30.20		
		Actual	Target	% of Target
Effectuated Enrollment		145,500	141,000	103.2%
Net Operating Margin	(1)	3.0%	7.9%	
Per Member Per Month (PMPM) - Carrier Fees		\$19.1	\$22.1	86.5%
Per Member Per Month (PMPM) - Operating Exp.		\$25.0	\$24.9	100.1%
Days Cash on Hand	(2)	148.7	120.0	123.9%
Change In Projected 12 Month Cash Flows		No		

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

(2) Based on FY21 budgeted daily operating expenses

Average enrollment levels exceeded budget expectations for the year due to the COVID driven special enrollment period in the final quarter of the year. Net operating margin was lower than expected during the year due to the combined impact of lower revenues and higher expenses. A more detailed discussion of the financial results is provided below

FINANCIAL RESULTS SUMMARY (12 months ending 6/30/20)

Financial Results (in 000's)	Status	YTD - 12 Months Ending 06.30.20		
		Actual	Budget	% of Budget
Revenues				
Program Revenue		10,785	7,700	140.1%
Carrier Fees		33,368	37,388	89.2%
Grant/Other Revenue		782	740	105.6%
Total Revenue		44,935	45,828	98.1%
Expenditures				
Technology		11,128	11,433	97.3%
Customer Service		17,060	15,871	107.5%
Personnel		9,413	9,068	103.8%
Marketing and Outreach		3,817	3,873	98.6%
Facilities		837	711	117.7%
Support Services		862	913	94.5%
Other		470	338	138.9%
Total Expenditures		43,588	42,206	103.3%
Earnings Before Depreciation		1,346	3,622	37.2%
Capital Expenditures		8,773	7,707	113.8%
Cash Flows		(9,112)	(3,960)	230.1%
Cash		14,869	20,021	74.3%
Working Capital		23,611	26,112	90.4%

The organization finished the year below its financial goals both on revenues and expenditure levels. For the fiscal year, earnings from operations (before depreciation) was slightly over \$1.3 million compared to budgeted expectations of \$3.6 million for the year. The largest drivers of this variance for the year were lower revenues generated through carrier fees and higher one-time costs related to the service center transition. Detailed financial statements are attached to this memo. Since this is year-end, additional pre-audit reconciliations will be performed on the accounting records which may result in some movement in the preliminary financial results being reported at this time. The following are high level explanations of budget to actual variances.

Revenue

Revenues were below budget by \$900,000. The primary driver for the shortfall were lower carrier fee revenues in the 3rd and 4th quarter of the fiscal year. While enrollment levels exceeded expectations in the final quarter due to the COVID related special enrollment period, it was not enough to offset the decrease in revenues resulting from reinsurance related lower premium levels for the 2020 plan year. As a result, we ended the year \$4 million below our expected carrier fee generated revenue level. Partially offsetting this shortfall were higher Medicaid expense reimbursements. The increase in reimbursements reflects an increase in assistance provided to Medicaid eligible customers during the year. In addition, as a result of transitioning to the new eligibility system in the prior year, the data used for determining the allocation of costs related to Medicaid was improved upon resulting in an adjustment increasing reimbursements from the prior year. This adjustment was reflected in the 2020 fiscal year.

Expenditures

Overall, total expenditures (operating and capital) for the year were \$2.4 million higher than budgeted. Operating expenses made up \$1.4 million of this overage and were driven primarily by the transition of the service center to a new contractor during the 3rd quarter that resulted in increased one-time transition costs. The magnitude of the higher costs was not originally budgeted. Upon completion of the transition in March, service center operating costs have gone down to expected levels.

Capital expenditures for the year came in \$1 million higher than budget expectations. This variance reflects the increased level of effort for the new technology platform to be ready for security/government review in the 4th quarter. These costs are part of the modernization effort that will be capitalized as a long-term asset.

Cash

Cash fell below forecasted levels for the year by \$5 million. This decrease was driven in part by the revenue and expense variances explained above. In addition, there have been delays in Medicaid expense reimbursements driven by cost allocation adjustment impacts on the timing of the payments. This is offset by a higher receivable balance related to these outstanding payments and is accounted for in working capital balance.

The cash metric of days cash on hand exceeded our target (150 days vs 120 days). This metric has not changed from the prior quarterly report. Until we complete the investment in the technology modernization this fall, we will continue to see pressure on our cash position.

Cash is invested in a combination of money market and certificates of deposit. Due to recent events money market rates have dropped precipitously from an 1.5% to .1 % since February. CD rates have also had similar drops. As of the end of the year we had \$4 million invested in prior CD's that were still earning over 1.5% but will be coming due in the current fiscal year.

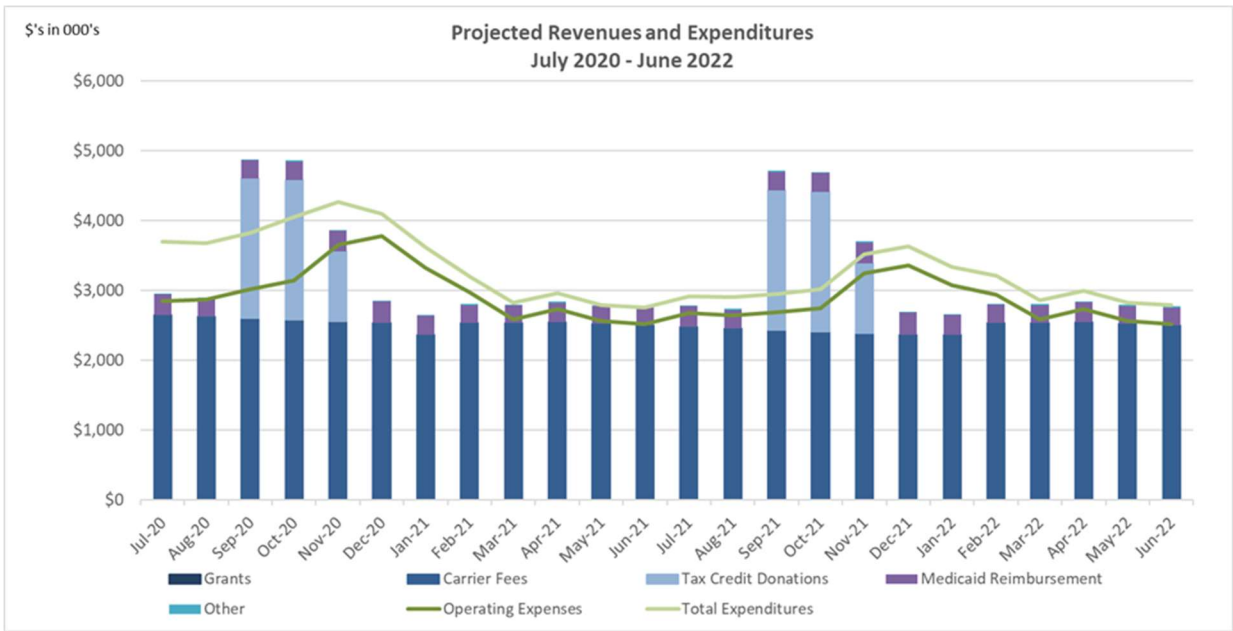
PROJECTIONS

As part of our ongoing monitoring of long-term financial sustainability we regularly revise our long- range financial projections. Based on the recently completed Fiscal Year 2021 budgeting process along with the 4th quarter financial results, we have revised the projections based on beginning of period cash and working capital.

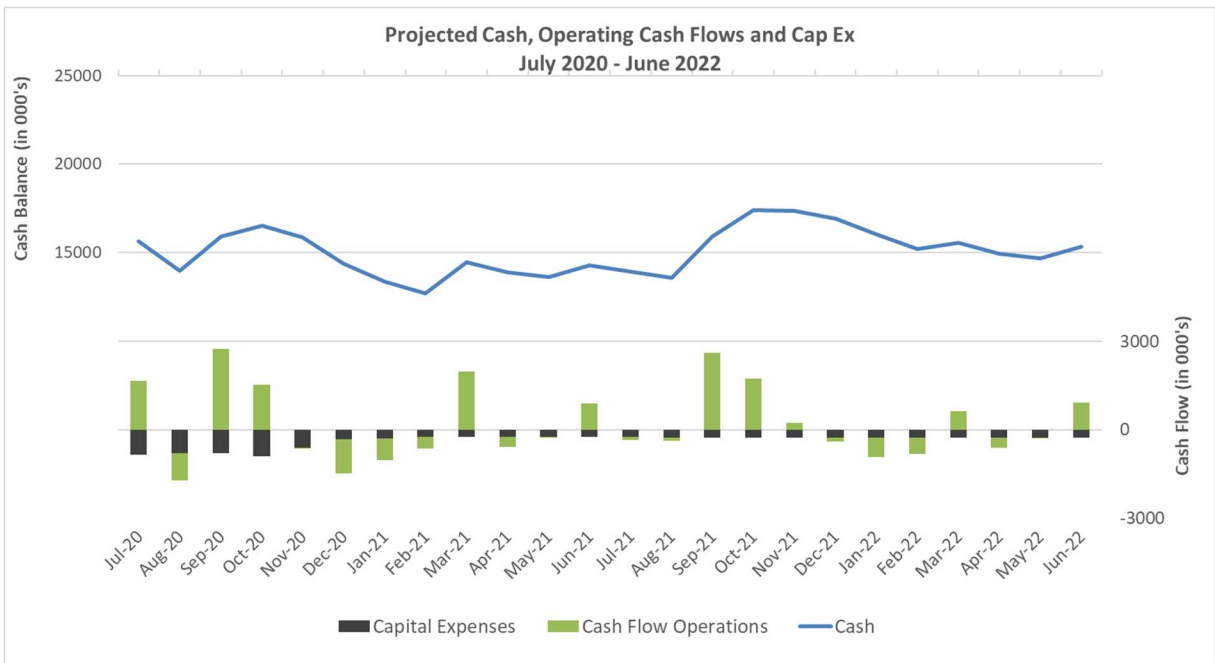
Some of the key assumptions in the projections include:

- No changes in federal and state rules impacting the organization over the plan period. We have not accounted for additional expenditures or revenues resulting from the expected block of Medicaid terminations. At this time there is too much uncertainty around this impact.
- Enrollment projections for the current plan year are based on current enrollment levels that include the impact of the COVID special enrollment period. Enrollment levels are assumed to drop down to historical enrollment levels for the 2021 plan year.
- Assumed medical premium levels for the current plan year will not change for the 2021 plan year. Assumed no change to current carrier fee structure.
- Medicaid reimbursement levels are expected to drop as the result of the significant service center and technology expense reductions in the FY 2021 budget.
- 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 and capital expenditures related to the technology modernization efforts are expected to continue at the current high level through the fall of 2020. Once this phase of the modernization effort is completed both operating expenditures are assumed to decrease along with the level of capital expenditures. This will provide for the rebuilding and stabilization of the organizations cash reserves.

Below are the 24 month revenue and expenditure projections based on the noted assumptions. Depicted in the graph are the forecasted revenue streams and expenditure levels for the next 24 months. This chart reflects the expected decline of operating expenses starting in 2021 as a result of the current investments being made in the service center and technology infrastructure.



Cash projections depicted below have not changed significantly from what was projected as part of the fiscal year 2021 budget presentation. We continue to project pressure on our cash position resulting from investments in our technology infrastructure through the 1st quarter of calendar year 2021 and then upon the stabilization of the new technology infrastructure, we project a rebuilding of our cash position.



Connect for Health Colorado
Statement of Revenues, Expenses, and Changes in Net Position

Reporting Book:
As of 6/30/2020

ACCRUAL

	FY 2020		
	12 months ending 06/30/20		
	Actual	Budget	Actual vs Budget
REVENUE			
Carrier Fee - Individual	33,334,992	37,364,056	(4,029,064)
Carrier Fee SHOP	-	-	-
Carrier Fee Vision	33,364	24,000	9,364
Grants	500,000	500,000	-
Tax Credit Donations	5,000,000	5,000,000	-
Medicaid Cost Reimbursement	5,784,853	2,700,000	3,084,853
Interest Income	278,481	240,000	38,481
Other revenue	3,220	-	3,220
Total Revenue	44,934,910	45,828,056	(893,146)
EXPENSES			
Technology			
Maintenance & Operation	6,663,545	8,111,982	(1,448,437)
Software/Licenses/Subscriptions (Tech)	906,568	556,379	350,189
Hosting	2,288,054	2,143,932	144,122
DDI (Design, Dev., Implementation)	1,270,186	620,224	649,962
Total Technology	11,128,353	11,432,517	(304,164)
Customer Service			
Customer Service Support	11,636,097	9,330,086	2,306,011
Customer Service Infrastructure/Facility	3,897,632	5,247,818	(1,350,186)
Medical Assistance	1,526,534	1,292,694	233,840
Total Customer Service	17,060,263	15,870,598	1,189,665
Personnel			
Salaries & Wages - Other	6,755,813	6,467,413	288,400
Taxes and Benefits	2,657,505	2,600,170	57,335
Total Personnel	9,413,318	9,067,583	345,735
Marketing and Outreach			
Media Buys - Radio/TV/Web	1,369,078	1,284,174	84,904
Outreach Services-Events, Sponsorships	276,721	284,000	(7,279)
Marketing Services	95,140	235,000	(139,860)
Assistance Network	2,076,133	2,070,000	6,133
Total Marketing and Outreach	3,817,072	3,873,174	(56,102)
Facilities			
Occupancy	547,171	483,888	63,283
Supplies & Materials	26,075	37,850	(11,775)
Postage/Shipping	2,909	3,800	(891)
Printing/Copying/Shred	16,922	21,000	(4,078)
Phone/Internet	107,876	82,400	25,476
Equipment/Furniture and Fixture	136,496	82,500	53,996
Total Facilities	837,449	711,438	126,011
Support services			
Public Affairs Services	76,000	100,000	(24,000)
Professional Services	485,773	347,000	138,773
Training and Development	102,859	202,300	(99,441)
H/R Services	132,883	150,500	(17,618)
Legal Services	29,655	47,920	(18,265)
Audit Services	35,069	65,000	(29,931)
Total Support Services	862,238	912,720	(50,482)
Other			
Insurance	94,687	125,000	(30,313)
Conferences/Meetings	14,479	25,420	(10,941)
Memberships/Dues/Subscriptions (Non-Tech)	92,280	98,950	(6,670)
Travel/Meals/Lodging	94,479	88,700	5,779
Other - G&A	173,828	200	173,628
Total Other	469,753	338,270	131,483
Total Expenses	43,588,447	42,206,300	1,382,146
Net Income Before Depreciation	1,346,464	3,621,756	(2,275,292)
Depreciation	2,454,812	2,454,812	-
Net Income	(1,108,348)	1,166,944	(2,275,292)

Connect for Health Colorado Statement of Financial Position

Reporting Book: ACCRUAL
As of Date: 6/30/2020

	FY 2020 6/30/2020		Actual vs Budget
	Actual	Budget	
Assets:			
Current assets:			
Cash and cash equivalents	14,868,752	20,020,845	(5,152,092)
Accounts receivable (net)	11,928,711	8,980,963	2,947,748
Prepaid expenses	2,834,314	831,965	2,002,349
Total Current assets:	29,631,777	29,833,773	(201,996)
Noncurrent asseets:			
Security deposits	55,448	55,448	0
Total Noncurrent asseets:	55,448	55,448	0
Capital assets:			
Web portal development	52,199,685	51,418,154	781,531
Software	19,154,275	19,154,275	0
Leasehold improvements	2,013,305	1,916,058	97,247
Office equipment	1,071,027	1,031,036	39,991
Furniture and fixtures	1,235,663	1,088,081	147,582
Less accumulated depreciation	(64,050,470)	(65,095,658)	1,045,188
Total Capital assets	11,623,485	9,511,945	2,111,540
Total Assets:	41,310,710	39,401,166	1,909,544
Liabilities and net position:			
Liabilities:			
Current liabilities:			
Accounts payable	3,821,026	1,840,107	1,980,919
Accrued liabilities	1,635,679	1,314,353	321,327
Payroll liabilities	1,064,160	567,660	496,500
Total Current liabilities:	6,520,866	3,722,120	2,798,746
Long-term liabilities:			
Deferred rent long term	176,960	220,047	(43,087)
Total Long-term liabilities:	176,960	220,047	(43,087)
Total Liabilities:	6,697,826	3,942,167	2,755,659
Net position:			
Unrestricted	34,612,885	35,458,999	(846,115)
Total Net position:	34,612,885	35,458,999	(846,115)
Total liabilities and net position:	41,310,710	39,401,166	1,909,544