

TO: CONNECT FOR HEALTH COLORADO FINANCE AND OPERATIONS COMMITTEE
FROM: BRIAN BRAUN, CHIEF FINANCIAL OFFICER
SUBJECT: QUARTERLY FINANCIAL REPORT 3RD QUARTER FISCAL YEAR 2020
DATE: 4/23/2020

Key Performance Indicators	Status	YTD - 9 Months Ending 03.31.20		
		Actual	Target	% of Target
Effectuated Enrollment		140,135	140,065	100.0%
Net Operating Margin	(1)	3.2%	4.9%	
Per Member Per Month (PMPM) - Carrier Fees		\$20.4	\$22.0	92.7%
Per Member Per Month (PMPM) - Operating Exp.		\$28.0	\$26.8	104.5%
Days Cash on Hand	(2)	149.5	120.0	124.5%
Change In Projected 12 Month Cash Flows		Yes		

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

(2) Based on projected daily operating expenses

Through the first 9 months of the fiscal year the average enrollment level stayed in line with budgeted levels. The enrollment impacts of the COVID 19 special enrollment period had a minimal impact on average enrollments for the year through March but is expected to have a more significant impact in the 4th quarter. Both PMPM carrier fees and expenses missed expected targets in the quarter. A more detailed discussion of the financial results is provided below.

Financial Results (in 000's)	Status	YTD - 9 Months Ending 03.31.20		
		Actual	Budget	% of Budget
Revenues				
Program Revenue		9,967	7,025	141.9%
Carrier Fees		25,767	27,794	92.7%
Grant/Other Revenue		741	680	109.0%
Total Revenue		36,475	35,499	102.7%
Expenditures				
Technology		9,462	9,144	103.5%
Customer Service		14,200	13,098	108.4%
Personnel		6,890	6,804	101.3%
Marketing and Outreach		3,258	3,235	100.7%
Facilities		695	539	128.9%
Support Services		555	683	81.2%
Other		240	267	90.1%
Total Expenditures		35,300	33,770	104.5%
Earnings Before Depreciation		1,176	1,729	68.0%
Capital Expenditures		5,679	5,793	98.0%
Cash Flows		(7,840)	(2,641)	296.8%
Cash		16,141	21,340	75.6%
Working Capital		26,014	26,971	96.5%

Financial results for the first 9 months of the 2020 fiscal year are running below expectations. While revenues exceeded expectations through the first 9 months by \$976,000, this positive variance was countered by higher expenses in the 2nd and 3rd quarter. This resulted in earnings from operations coming under the budgeted level of \$1.7 million by \$550,000 for the year. The 2nd and 3rd quarter of the fiscal year are generally our highest quarter for expenditures due to the additional resources needed for open enrollment. This year that was exacerbated by the transition of the service center and to a lesser extent COVID 19.

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 higher than anticipated Medicaid reimbursements for the period. This increase reflects an increase in assistance provided to Medicaid eligible customers. 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.

Carrier fees in the 3rd quarter dropped below expectations pulling the years total carrier fee revenue below budget by \$2 million. The drop was expected as a result of the decrease in overall premium levels for the 2020 plan year but was not anticipated in the budget for FY20.

Expenditures

Overall, total expenditures (operating and capital) for the 6 months of \$40.9 million came in over the budgeted level for the period of \$39.6 million. Operating expenses exceeded budget expectations by \$1.5 million. This overage was primarily the result of the transition of the service center to a new contractor during the last 2 quarters that resulted in increased one-time transition costs not originally budgeted for at this level. Facility expenses came in over budget due to the combination of taking on some additional temporary space to house larger staffing levels during open enrollment for the internal customer service and medical assistance teams along with the expansion of our remote worker infrastructure due to COVID 19.

Cash

Cash is running below forecasted levels due primarily to delays in the calculation and processing of Medicaid expense reimbursements. The delay was the result of changes to some of the underlying eligibility determinations data used in calculating allocations. This was the result of the change over to the new eligibility system in the prior year. The new methodology is now in place and payment requests have been submitted. Due to this delay, our cash balance is lower than what was anticipated by \$5 million. This is offset by a higher receivable balance related to these outstanding expected payments. Overall, working capital continues to be in line with budgeted levels.

The cash metric of days cash on hand exceeded our target (150 days vs 120 days). This metric has dropped since the prior report. The drop was anticipated 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. Until we complete the investment in the technology

modernization this fall, we will continue to see pressure on our cash position. The rebuilding of our cash balances is addressed in our proposed FY 2021 budget.

Cash is invested in a combination of money market and certificates of deposit. The average interest rate earned on these invested funds was 1.3% for the period compared to a budget assumption of 1%. We are seeing a significant drop in interest rates due to recent steps taken by the Federal Reserve that will result in lower earnings on our investments in the near term.

PROJECTIONS

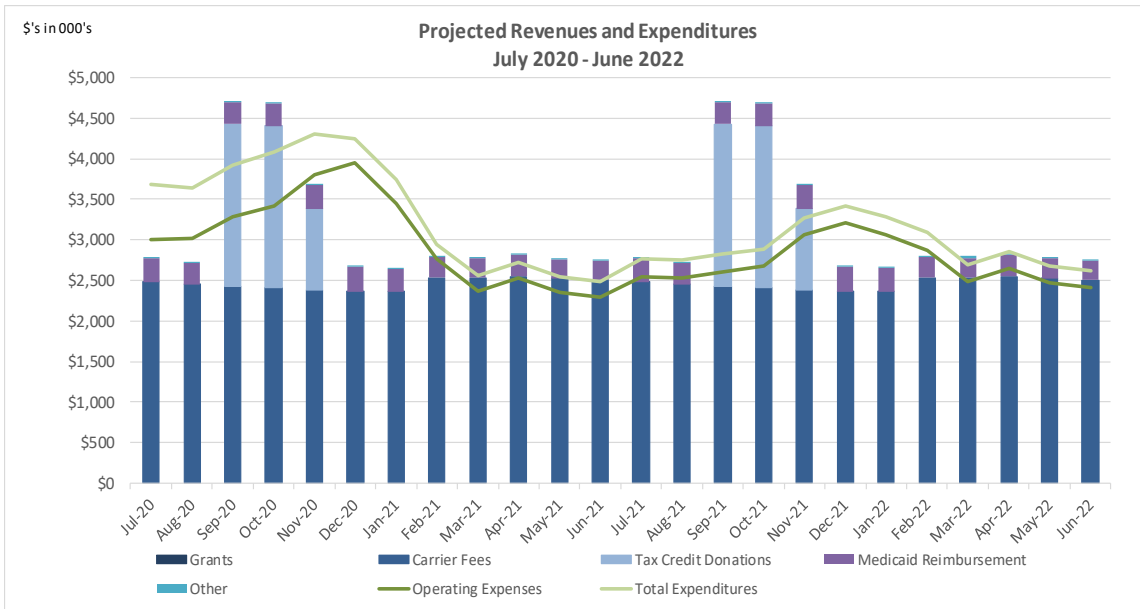
As part of our ongoing monitoring of long-term financial sustainability we regularly revise the long-range financial projections. Projections at this point in the year reflect our estimated revenue and budgeted expenses generated by the FY 2021 budgeting process and will be discussed as part of the budget approval process. In summary some of the key assumptions for the FY 2021 budget and projections for FY 2022 include:

Some of the key assumptions in the projections include:

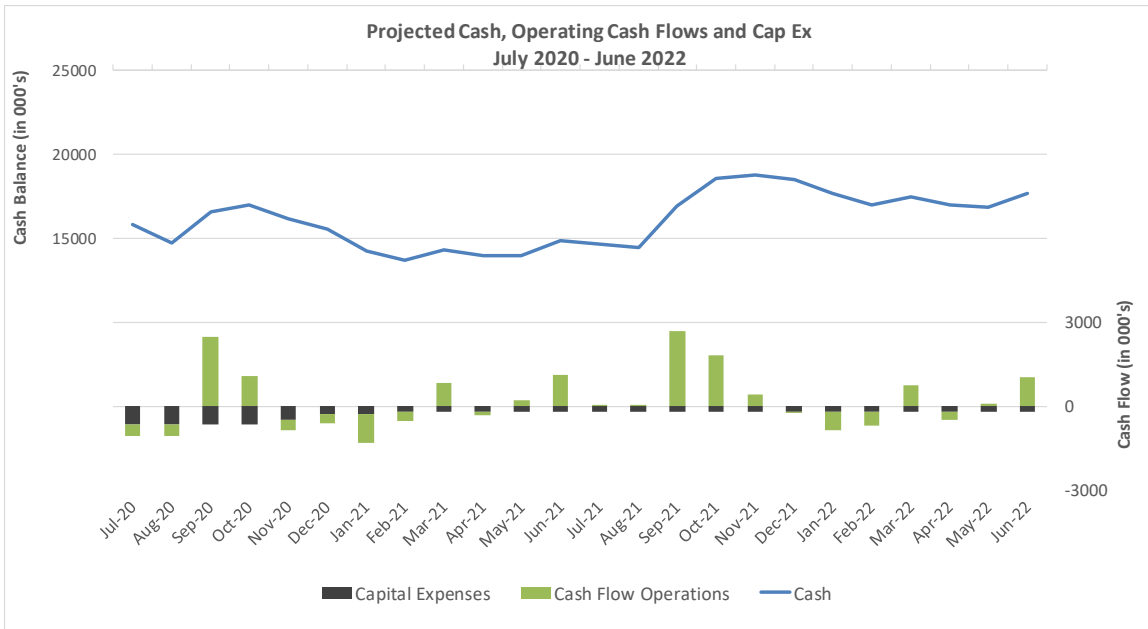
- No changes in federal and state rules impacting the organization over the plan period.
- Enrollment projections are based on 2020 plan year effectuated enrollment levels through March with the assumption these levels will not change significantly outside of the normal historical churn levels.
- Assumed 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 peak in the first half of the next fiscal year. Once this phase of the modernization effort is completed both operating expenditures are expected to decrease along with the level of capital expenditures. This will provide for the rebuilding of the organizations cash reserves.

Rolling 24 Month Projections

Below are the 24 month revenue and expenditure projections based on the noted assumptions. Depicted in the following 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.



Below are the projected cash balances (right side scale) and cash flows (left side scale) resulting from the expected revenues and expenditures over the next 24 months based on the above projections of revenues and expenditures.



As anticipated, the graph indicates a higher level of capital expenditures over the first 6 months of the 24 month projection period as we complete the technology modernization efforts. The higher levels of expenditures result in downward pressure on our cash balances during this period. Beyond this high investment phase cash flows are projected to improve resulting in a rebuilding of cash reserves as indicated in the blue line.

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

Reporting Book:
As of 3/31/2020

ACCRUAL

	FY 2020		
	9 months ending 03/31/20		
	Actual	Budget	Actual vs Budget
REVENUE			
Carrier Fee - Individual	25,744,160	27,776,492	(2,032,332)
Carrier Fee SHOP	-	-	-
Carrier Fee Vision	22,635	18,000	4,635
Grants	500,000	500,000	-
Tax Credit Donations	5,000,000	5,000,000	-
Medicaid Cost Reimbursement	4,967,000	2,025,000	2,942,000
Interest Income	238,193	180,000	58,193
Other revenue	3,220	-	3,220
Total Revenue	36,475,208	35,499,492	975,716
EXPENSES			
Technology			
Maintenance & Operation	6,011,804	6,060,762	(48,958)
Software/Licenses/Subscriptions (Tech)	642,863	418,029	224,834
Hosting	1,663,931	1,607,949	55,982
DDI (Design, Dev., Implementation)	1,143,655	1,057,591	86,064
Total Technology	9,462,253	9,144,331	317,922
Customer Service			
Customer Service Support	10,195,455	8,084,777	2,110,678
Customer Service Infrastructure/Facility	2,885,326	4,044,190	(1,158,864)
Medical Assistance	1,119,127	969,523	149,604
Total Customer Service	14,199,908	13,098,490	1,101,418
Personnel			
Salaries & Wages - Other	4,942,023	4,853,541	88,482
Taxes and Benefits	1,947,748	1,950,115	(2,367)
Total Personnel	6,889,771	6,803,656	86,115
Marketing and Outreach			
Media Buys - Radio/TV/Web	1,315,065	1,249,173	65,892
Outreach Services-Events, Sponsorships	234,546	201,750	32,796
Marketing Services	77,842	143,500	(65,658)
Assistance Network	1,630,305	1,640,499	(10,194)
Total Marketing and Outreach	3,257,758	3,234,922	22,836
Facilities			
Occupancy	441,908	362,916	78,992
Supplies & Materials	24,269	28,802	(4,533)
Postage/Shipping	1,819	2,849	(1,030)
Printing/Copying/Shred	13,415	15,852	(2,437)
Phone/Internet	78,496	61,802	16,694
Equipment/Furniture and Fixture	134,893	66,948	67,945
Total Facilities	694,799	539,169	155,630
Support services			
Public Affairs Services	57,000	77,500	(20,500)
Professional Services	279,000	254,252	24,748
Training and Development	91,396	152,600	(61,204)
H/R Services	98,832	112,875	(14,043)
Legal Services	4,192	35,944	(31,752)
Audit Services	24,569	50,000	(25,431)
Total Support Services	554,989	683,171	(128,182)
Other			
Insurance	69,878	102,500	(32,622)
Conferences/Meetings	9,206	20,192	(10,986)
Memberships/Dues/Subscriptions (Non-Tech)	67,148	74,213	(7,065)
Travel/Meals/Lodging	93,343	69,679	23,664
Other - G&A	621	152	469
Total Other	240,196	266,736	(26,540)
Total Expenses	35,299,674	33,770,474	1,529,200
Net Income Before Depreciation	1,175,534	1,729,018	(553,483)
Depreciation	1,697,750	1,697,750	-
Net Income	(522,216)	31,268	(553,483)

Connect for Health Colorado Statement of Financial Position

Reporting Book: ACCRUAL
As of Date: 3/31/2020

	FY 2020 3/31/2020		Actual vs Budget
	Actual	Budget	
Assets:			
Current assets:			
Cash and cash equivalents	16,140,741	21,339,515	(5,198,774)
Accounts receivable (net)	14,210,397	9,049,457	5,160,941
Prepaid expenses	2,449,521	852,452	1,597,069
Total Current assets:	32,800,660	31,241,424	1,559,235
Noncurrent asseets:			
Security deposits	79,448	55,448	24,000
Total Noncurrent asseets:	79,448	55,448	24,000
Capital assets:			
Web portal development	49,266,173	49,504,253	(238,080)
Software	19,154,275	19,154,275	0
Leasehold improvements	1,924,388	1,916,058	8,330
Office equipment	1,058,909	1,031,036	27,873
Furniture and fixtures	1,175,519	1,088,081	87,438
Less accumulated depreciation	(63,293,408)	(64,220,658)	927,250
Total Capital assets	9,285,855	8,473,044	812,811
Total Assets:	42,165,963	39,769,917	2,396,046
Liabilities and net position:			
Liabilities:			
Current liabilities:			
Accounts payable	419,955	1,588,594	(1,168,640)
Accrued liabilities	5,658,752	2,114,353	3,544,399
Payroll liabilities	708,298	567,660	140,638
Total Current liabilities:	6,787,004	4,270,607	2,516,397
Long-term liabilities:			
Deferred rent long term	179,691	220,047	(40,355)
Total Long-term liabilities:	179,691	220,047	(40,355)
Total Liabilities:	6,966,695	4,490,654	2,476,041
Net position:			
Unrestricted	35,199,267	35,279,263	(79,996)
Total Net position:	35,199,267	35,279,263	(79,996)
Total liabilities and net position:	42,165,963	39,769,917	2,396,046