CAREOREGON, INC. AND SUBSIDIARIES

Consolidated Financial Statements
(with Supplementary Information)

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

CAREOREGON, INC. AND SUBSIDIARIES

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KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
CareOregon, Inc. and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CareOregon, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statement of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Predecessor Auditor

The accompanying consolidated financial statements of the Organization as of December 31, 2013, and for the year then ended were audited by other auditors whose report, dated April 29, 2014, expressed an unmodified opinion on those financial statements.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

May 4, 2015

CAREOREGON, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	$ 36,551,226	32,953,954
Investments – unrestricted	307,382,375	191,831,242
Maternity case rate receivable, net of allowance for doubtful accounts of $1,105,029 in 2014 and $1,679,033 in 2013	3,224,755	4,915,240
Reinsurance recoveries receivable	4,069,000	420,000
Interest receivable	1,504,413	1,106,283
Pharmacy rebates receivable	757,719	828,852
Premium receivable	6,763,523	8,432,883
Pay for performance incentive receivable	20,667,798	2,489,795
Other receivables	5,026,734	3,114,292
Prepaid expenses, other current assets, and deposits	2,883,351	4,032,103
Deferred tax asset	1,829,351	1,509,766
Total current assets	390,660,245	251,634,410
Assets limited as to use:		
Investments – statutory reserves	304,464	306,960
Investments – contractual reserves	12,879,721	8,877,682
Total assets limited as to use	13,184,185	9,184,642
Fixed assets, net of accumulated depreciation and amortization of $21,213,216 in 2014 and $21,116,986 in 2013	19,926,451	20,553,441
Other assets:		
Noncurrent deferred taxes	282,874	—
Investments in housing and dental organizations	149,000	—
Lease deposits	19,950	17,625
Note receivables, net of allowance for doubtful accounts of $1,200,000 in 2014	—	1,200,000
Total other assets	451,824	1,217,625
Total assets	$ 424,222,705	282,590,118

(Continued)

CAREOREGON, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2014 and 2013

Liabilities and Net Assets	**2014**	**2013**
Current liabilities:		
Accrued medical claims payable	$ 68,668,255	57,395,311
Claims adjudicated pending payment	7,524,110	4,924,681
Premium deficiency reserve	4,560,000	11,930,000
Managed care contract payable	433,835	220,551
Deferred revenue	1,428,773	—
Patient centered primary care home payable	—	177,847
Accounts payable and accrued expenses	8,707,958	5,163,296
Medicare advances payable	21,340	6,247,024
Risk corridor payable	23,489	550,520
Accrued payroll and benefits	5,125,902	3,466,413
Premium recoupment payable	32,965,605	3,052,366
Pay for performance incentive payable	25,169,264	2,359,411
Contingent loss reserve	—	4,000,000
Total current liabilities	154,628,531	99,487,420
Deferred rent	—	23,714
Noncurrent deferred taxes	—	88,220
Net assets:		
Temporarily restricted	250,000	599,002
Unrestricted	269,344,174	182,391,762
Total net assets	269,594,174	182,990,764
Total liabilities and net assets	$ 424,222,705	282,590,118

See accompanying notes to consolidated financial statements.

CAREOREGON, INC. AND SUBSIDIARIES

Consolidated Statements of Activities

Years ended December 31, 2014 and 2013

	2014	2013
Revenue:		
Premium revenue	$ 982,426,468	677,812,834
Management fee revenue	12,718,612	10,358,616
Other revenue and grant revenue	3,930,629	2,476,239
Total operating revenues	999,075,709	690,647,689
Operating expenses:		
Purchased healthcare	855,223,193	617,551,783
Salaries and benefits – general and administrative	34,025,535	27,607,014
Other administrative expenses	19,783,698	17,124,240
Management services expenses	13,794,425	11,572,023
Grant and business development expenses	3,754,405	5,136,567
Charitable contributions	2,513,172	5,362,636
Claims administration	1,505,230	932,302
Premium deficiency reserve	(7,370,000)	3,930,000
Loss on disposal of fixed assets	339,738	7,930
Bad debt expense	1,200,000	—
Contract losses	—	4,000,000
Managed care taxes	—	1,569,969
Total operating expenses	924,769,396	694,794,464
Revenues over (under) operating expenses	74,306,313	(4,146,775)
Other income		
Investment income, net of transaction, custodial and advisory fees of $503,912 in 2014 and $415,881 in 2013	9,661,357	7,335,322
Other income	205,240	—
	9,866,597	7,335,322
Net income before taxes	84,172,910	3,188,547
Income tax (benefit) expense	(2,779,501)	329,916
Excess of revenues over expenses	$ 86,952,411	2,858,631

See accompanying notes to financial statements.

CAREOREGON, INC. AND SUBSIDIARIES

Consolidated Changes in Net Assets

Years ended December 31, 2014 and 2013

	2014	2013
Unrestricted net assets:		
Excess of revenue over expenses	$ 86,952,411	2,858,631
Increase in unrestricted net assets	86,952,411	2,858,631
Temporarily restricted net assets:		
Change in temporarily restricted net assets	(349,002)	599,002
Increase in temporarily restricted net assets	(349,002)	599,002
Increase in net assets	86,603,409	3,457,633
Net assets, beginning of year	182,990,764	179,533,131
Net assets, end of year	$ 269,594,173	182,990,764

See accompanying notes to financial statements.

CAREOREGON, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	86,603,410	3,457,633
Adjustments to reconcile increase in net assets to increase in net cash operating activities:			
Depreciation and amortization		3,410,263	3,351,059
Realized and unrealized gain on investments		(4,493,046)	(3,001,380)
Net restricted interest		(29,939)	—
Net fixed income investment discount and premium amortization		1,146,213	1,077,306
Loss on disposal of fixed assets		339,738	7,930
Loan bad debt expense		1,200,000	—
Deferred income tax expense		(690,679)	(1,640,803)
Changes in assets and liabilities:			
Maternity case rate receivable		1,690,485	5,735,130
Patient centered primary care home receivable, net		(177,847)	125,689
Reinsurance recoveries receivable		(3,649,000)	295,000
Interest receivable		(398,130)	98,312
Pharmacy rebates receivable		71,133	3,881,567
Premium receivable		1,669,360	(7,348,742)
Pay for performance incentive receivable, net		4,631,850	(130,384)
Other receivables		(1,912,442)	(609,011)
Prepaid expenses, other current assets, and deposits		1,148,752	(1,524,943)
Lease deposits		(2,325)	—
Accrued medical claims payable		11,272,944	3,846,436
Claims adjudicated pending payment		2,599,429	710,655
Premium deficiency reserve		(7,370,000)	3,930,000
Managed care contract payable		213,284	(500,144)
Deferred revenue		1,428,773	—
Accrued gain share		—	(3,007,000)
Accounts payable and accrued expenses		3,544,662	(1,048,371)
Medicare advances payable		(6,225,684)	4,053,941
Risk corridor payable		(527,031)	(316,135)
Accrued payroll and benefits		1,659,489	866,467
Premium recoupment payable		29,913,239	1,155,815
Contingent loss reserve		(4,000,000)	4,000,000
Deferred rent		(23,714)	—
Net cash flows provided by operating activities	$	123,043,187	17,466,027

(Continued)

CAREOREGON, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

		2014	2013
Cash flows from investing activities:			
Proceeds from investment sales and maturities – unrestricted	$	78,167,670	68,251,992
Purchase of investments – unrestricted		(190,341,574)	(80,203,692)
Proceeds from investment sales and maturities – contractual reserves		—	4,654,405
Purchase of investments – contractual reserves		(4,000,000)	(3,635,642)
Purchase of fixed assets		(3,127,411)	(2,995,445)
Proceeds from sale of fixed assets		4,400	—
Investments in housing and dental organizations		(149,000)	—
Note Receivable		—	(1,200,000)
Net cash flows used in investing activities		(119,445,915)	(15,128,382)
Net change in cash and cash equivalents		3,597,272	2,337,645
Cash and cash equivalents, beginning of year		32,953,954	30,616,309
Cash and cash equivalents, end of year	$	36,551,226	32,953,954
Supplemental cash flow information:			
Cash paid for interest	$	(1,502)	(3,579)
Cash paid for taxes (net tax refunds)		(922,405)	(3,400,500)

See accompanying notes to financial statements.

(1) Nature of Business and Organization

CareOregon, Inc. (the Parent or CareOregon) has contracted with several Coordinated Care Organizations (CCOs) and with the Oregon Health Authority (OHA) to manage care and provide healthcare services to Medicaid enrollees. CareOregon contracts with a network of community and private medical providers throughout the State of Oregon, paying negotiated fees for health services to these providers. The contracts with the CCOs are renewable after terms ranging from one to five years. The contracts with the OHA are in effect through 2018. Medicaid capitation revenue sources in 2014 were 73% from external CCOs, 25% from subsidiary CCOs, and 2% from direct contracts with OHA.

CareOregon is organized and operated exclusively for charitable, educational, and scientific purposes, including, for such purposes, making distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code of 1986. The Parent's mission is to cultivate individual well-being and community health through shared learning and innovation. The Parent and its subsidiaries combined are referred to as the Organization.

CareOregon has organized its activities around the principles of the Triple Aim, as articulated by the Institute for Healthcare Improvement, to achieve high standards of population health for their members, to promote and provide health and other care which is patient centered and results in high levels of patient satisfaction, and to provide services at reasonable per capita costs.

In 2012, under the Oregon Legislature's plan to transform the Oregon Health Plan (OHP) system through CCOs, the Parent formed three wholly owned LLC CCOs: Columbia Pacific CCO, LLC; Jackson County CCO, LLC (Jackson Care Connect); and PrimaryHealth of Josephine County CCO, LLC. The majority of the Parent's OHP members were transferred to these CCOs as well as two independently formed CCOs, Health Share of Oregon (Health Share), formed in April 2012 and Yamhill County Care Organization, Inc. (Yamhill CCO), formed in July 2012.

Also, in 2012, Multnomah County Health Department assigned its managed care dental contract with OHA to CareOregon. As a part of the arrangement, CareOregon agreed to improve dental access for OHP members in Multnomah County. Dental revenues for the dental organization (DCO), CareOregon Dental, totaled $26.1 million in 2014 and $8.2 million in 2013. The increase in dental revenues is partially due to membership growth in CareOregon Dental, as a result of the Affordable Care Act (ACA) expansion. CareOregon Dental signed dental contracts with Health Share and Family Care. As part of OHA's continuing efforts to integrate physical, mental, and dental health for Medicaid members, OHA required CCOs to offer dental benefits. Jackson Care Connect and Columbia Pacific CCO signed dental contracts with multiple DCOs effective in January 2014 and April 2014, respectively.

CareOregon holds Management Service Agreements with its subsidiaries, as well as Health Share, Yamhill CCO, Oregon's Health CO-OP, and Neighborhood Health Center (Neighborhood Health). Under the terms of the Management Service Agreements, the entities utilize the Parent's personnel, office space, equipment, computer systems, software and operating methodologies to manage their business.

The consolidated financial statements also include the following subsidiaries:

(a) Coordinated Care Organizations

Columbia Pacific CCO, LLC – The Parent formed a wholly owned, single-member subsidiary, Columbia Pacific CCO, LLC (Columbia Pacific), in April 2012, as part of the Oregon Legislature's plan to transform the OHP system through each of the CCOs. Columbia Pacific serves OHP members in Clatsop, Columbia, western Douglas, and Tillamook counties.

Jackson County CCO, LLC – The Parent formed a wholly owned, single-member subsidiary, Jackson County CCO, LLC (Jackson Care Connect), in May 2012. Jackson Care Connect serves OHP members in Jackson County.

PrimaryHealth of Josephine County CCO, LLC – The Parent formed a wholly owned, single-member subsidiary, PrimaryHealth of Josephine County, LLC (PrimaryHealth), in May 2012. PrimaryHealth served OHP members in Josephine County and contracted with Oregon Health Management Services (OHMS) to operate the plan. CareOregon's membership interest in PrimaryHealth was sold to OHMS in January 2014. As a part of the sale, OHMS also agreed to contribute $87,500 to a Transformation Fund, to be used in accordance with the state's Transformation Fund requirements.

(b) Other Subsidiaries

Health Plan of CareOregon, Inc. – The Parent formed a for-profit, wholly owned subsidiary, Health Plan of CareOregon, Inc. (Health Plan) in 2005. Health Plan is a Health Care Service Contractor (HCSC) domiciled in the state of Oregon and is regulated by the Department of Consumer and Business Services (DCBS).

Health Plan is a Medicare Advantage and Prescription Drug Plan (MA-PD) with the Center for Medicare and Medicaid Services (CMS). It is made up of two plans: a Special Needs MA-PD Plan that primarily targets enrollment of Medicaid and Medicare dual eligible members, and a regular Medicare Advantage plan.

The Parent formed a nonprofit, wholly owned subsidiary CareOregon Advantage (COA) in July 2013. On December 31, 2014, Health Plan merged with COA. COA is an Oregon nonprofit public benefit corporation and the survivor of the merger. Health Plan's contract with CMS was transferred, DCBS issued a new Certificate of Authority, and COA changed its name to Health Plan of CareOregon upon completion of the merger.

Care Access LLC – Formed in July 2009, Care Access LLC (Care Access) purchased a medical office building in July 2009, to improve access to primary care in the underserved Rockwood area of Gresham, Oregon. Care Access improved the building and receives rental income from its medical clinic tenant, Multnomah County Health Department.

LHW LLC – In March 2013, LHW LLC was formed and purchased certain assets of Lean Healthcare West, offering training in lean business practices to the healthcare industry, supporting the mission work of CareOregon to bring best practices in business to healthcare settings. Assets purchased were primarily intangible assets of brand, trademarks, and customer lists for repeat business use. Upon review of 2013 financial performance, it was determined the value of the intangibles was not realizable and as a result a goodwill write-down of approximately $2 million was recognized during 2013.

CareOregon Community Health LLC – The Parent formed a wholly owned, single-member subsidiary, CareOregon Community Health LLC (Community Health), in April 2010, to provide increased access to quality healthcare for CareOregon members and those in the clinic communities. Community Health operated three clinics in Washington and Clackamas counties, one of which was operated under the direction of Clackamas County Health Department. Effective October 1, 2011, Community Health contributed assets to form a new independent 501(c)(3) corporate entity, Neighborhood Health Center, to run the existing clinic operations and additionally offer dental services in Oregon City. Support and administrative services were provided by CareOregon, under agreements with Neighborhood Health. Community Health's remaining administrative functions were completed during 2014 and it was dissolved in December 2014.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in U.S. (GAAP). CareOregon and Subsidiaries (the Organization) presents its financial statements in accordance with FASB Accounting Standards Codification (ASC) Section 958, *Not–for–Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2014 and 2013, net assets were unrestricted, subject to contractual and statutory limitations (notes 4 and 5).

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Parent and its wholly owned subsidiaries. All material interorganization transactions have been eliminated.

(c) Use of Estimates

In preparing the consolidated financial statements in conformity with Generally Accepted Accounting Principles of the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial position, and revenue and expenses for the period. Actual results could differ from those estimates.

Significant estimates in these consolidated financial statements include accrued medical claims payable, maternity case rate receivable and related allowance, premium receivable, reinsurance recoveries receivable, premium deficiency reserve, Medicare advances payable, pay for performance receivable and payable, and special needs rate group payables.

(d) Concentrations of Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist of cash and short-term investments. The Organization maintains its cash in accounts that, at times, may exceed federally insured limits. Investments are primarily fixed income securities and by their nature are subject to market interest rate fluctuations. Potential concentrations of credit risk exist due to market concentrations of high quality fixed income investments, which react similarly to changing economic conditions.

The Organization's revenue was generated by providing healthcare services in accordance with the terms of the OHA and CMS contracts, and by providing management services in accordance with the terms of the Management Service Agreements. Loss of the contract and agreement due to nonrenewal, federal and state health policy changes, or legislative funding decisions could materially affect the financial position of the Organization. The current CCO OHA contracts are effective through 2018. The Managed Care Organization (MCO) OHA contract, Dental Care Organization (DCO) OHA contract, and CMS contract are renewable on an annual basis.

Segments of the member population are served by concentrations of clinics and hospitals in counties throughout Oregon. Nonrenewal of provider contracts could result in limited member access to care. The Organization's personnel, members, patients, and provider networks are geographically concentrated in the state of Oregon.

(e) Fair Value Measurements

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured.

Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Organization's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities, and credit spreads. The valuation techniques used are based on observable and unobservable inputs.

Observable inputs are those assumptions which market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of the Organization.

Unobservable inputs are assumptions based on the Organization's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date.

ASC 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy for determining fair value that is based on the transparency of the inputs used in the valuation process. The inputs used in determining fair value in each of the three levels of the hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Either: (i) quoted prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data or other pricing sources with reasonable levels of transparency

Level 3 – Unobservable inputs

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

The following methods and assumptions were used by the Organization in estimating fair values of each class of financial instruments for which it is practicable to estimate that value, in accordance with the provisions of FASB ASC Section 825, *Financial Instruments*:

Cash and cash equivalents – The carrying amount approximates fair value because of the short maturity of these instruments.

Accounts receivable, accounts payable, and accrued expenses – The carrying amounts are at historical costs; their respective estimated fair values approximate carrying values due to their current nature.

Investments – The carrying amount is stated at fair value, and amounts are based on quoted market prices or alternative pricing sources with reasonable levels of transparency. Fair values and pricing methodology of investments are disclosed in notes 3 through 6.

(f) Cash and Cash Equivalents

The Organization considers cash to be cash in the bank or on hand and available for current use. Cash equivalents are investments maturing three months or less from date of purchase and approximate fair value. The Organization did not hold any cash equivalents at December 31, 2014 or 2013.

(g) Investments – Unrestricted

Investments are stated at fair market value based on quoted market prices as of the statement of financial position dates (notes 3 through 6). The Organization uses the specific identification method for determining the cost basis and gain or loss on its investments. Changes in fair value are recorded in investment income.

(h) Investments – Statutory Reserves

The statutory reserves are required by DCBS for Health Plan, and include treasury bonds and cash, stated at fair market value (note 5). Changes in fair value are recorded in investment income.

(i) Investments – Contractual Reserves

The contractual reserves are required by OHA for the Parent and Columbia Pacific and Jackson Care Connect CCOs, and include cash and securities, stated at fair market value. OHA requires these funds to be held for the purpose of making payments to providers in the event of the Parent's insolvency (note 4). Changes in fair value are recorded in investment income.

(j) Receivables

Receivables consist primarily of amounts owed to the Organization for capitated premiums, maternity case rate premiums, quality pool payments, reinsurance recoveries, and pharmacy related receivables. The Organization does not require collateral or other security to support the recorded receivable amounts. Management has estimated an allowance against maternity case rate receivables based on an aging analysis and the likelihood of collection.

(k) Fixed Assets

Fixed assets are stated at cost, and are depreciated or amortized using the straight-line method over the estimated useful life. Useful lives are determined by the asset type, and can range from 3 to 30 years. Land is not depreciated. Significant additions and improvements that increase the estimated useful life of an asset are capitalized. Expenditures for maintenance and repairs are expensed as incurred. Software development and implementation costs are capitalized and amortized over a five-year useful life. Fixed asset purchases totaling less than $5,000 are expensed when purchased.

(l) Revenue Recognition

Capitation and premium payments received or accrued are recognized in the period to which the health care services coverage relates. Quality Pool matrix payments are recognized in the period earned. Maternity case rate premiums are recognized in the period that a birth occurs. Management fee revenue is recognized in the period in which the management services are provided.

Hospital Reimbursement Adjustments (HRA), Graduate Medical Education (GME), and Patient Centered Primary Care Home (PCPCH) contractual payments from the OHA, received with capitation and maternity case rate premiums, are recorded in premium revenue and purchased healthcare expenses. The amounts recorded for the year ended December 31, 2014 for HRA, GME, and PCPCH payments were $44,139,211, $136,251, and $1,044,094, respectively. For the year ended December 31, 2013, amounts recorded for HRA, GME, and PCPCH payments were $33,641,373, $189,419, and $2,975,530, respectively.

Federal reinsurance and low-income cost sharing subsidy payments received from CMS are accounted for as premium revenue as the Medicare Part D (pharmacy) expenses are incurred. Subsidy amounts received, but not yet included in premium revenue, are recorded as Medicare advances payable. Medicare Part D expenses in excess of subsidy received are recorded as Medicare premium receivable. Amounts included in premium revenue and purchased healthcare expenses for 2014 and 2013 were $30,019,269 and $23,031,470, respectively.

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(m) Net Investment Income

Investment income consists of interest earnings, dividends, and both realized and unrealized gains and losses. Premiums and discounts on fixed income securities are recognized as adjustments to investment income using the scientific interest method. Interest on fixed income securities is recognized in income on an accrual basis. Investment income is presented net of investment transaction, custodial and advisory fees, which are expensed as incurred. Interest and dividends represent amounts earned on investment holdings, and are accrued when earned. Realized investment gains and losses represent capital gains and losses. Unrealized gains or losses represent net changes in fair market value.

(n) Accrued Medical Claims Payable and Claims Adjudicated Pending Payment

Accrued medical claims payable represents an estimate of medical costs incurred, but not yet billed and processed, through the date of the statement of financial position. The claims adjudicated pending payment includes amounts billed, processed, and pending payment.

Management's evaluation of the adequacy of the accrued medical claims payable is based on a review of utilization data, and an actuarial review of historical claims experience. It is reasonably possible that the estimated accrued medical claims payable will change in the near-term. Actual medical expenses were lower than the original estimated amounts in 2013.

(o) Premium Deficiency Reserve

In accordance with FASB ASC Section 450, *Contingencies*, the Organization records a premium deficiency reserve (PDR) to recognize anticipated losses on contracts. A premium deficiency shall be recognized if the sum of expected claim costs and claim adjustment expenses, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums. The evaluations are subjected to an actuarial review and analysis (note 9).

(p) Managed Care Contracts Payable

Medicaid premiums earned during 2014 and 2013 were subject to hospital reimbursement adjustment (HRA), and graduate medical education (GME) payments, and a 1% managed care organization (MCO) tax rate. The MCO tax sunsetted on September 30, 2013. The Parent and CCOs accrued MCO taxes, HRA, and GME payables as the revenue was received. There were no MCO taxes payable as of December 31, 2014.

(q) Medicare Advances Payable or Receivable

Health Plan receives federal reinsurance and low-income cost sharing subsidy payments from CMS related to its Medicare Part D coverage. Amounts received are recorded as Medicare advances payable until the related expenses have been incurred. Once incurred, the amounts received are recognized as revenue and wholly offset the related expenses. At December 31, 2014, Medicare Part D expenses incurred exceeded the subsidy payments received, and therefore, the Company recorded a Medicare Advances Receivable.

(r) Pay for Performance (P4P or Quality Pool)

In 2014 and 2013, OHA incentivized CCOs to perform against 17 metrics by holding back 3% and 2%, respectively, of capitation premium and paying based on the percentage of metrics met. Some examples of the metrics include clinical measures and technology capabilities. Each CCO determines how to use the funds. Amounts intended for providers or other spending are recorded as pay for performance incentive payables. P4P incentive receivable from OHA was $20,667,798 and $2,489,795 million at December 31, 2014 and 2013, respectively.

(s) Contingent Loss Reserve

In accordance with ASC 450-20, *Loss Contingencies*, CareOregon records an accrual when a loss is probable and can be reasonably estimated. The 2013 contingent loss reserve of $4,000,000 for contracted services provided to Oregon's Health CO-OP was fully utilized in 2014, with no contingent loss reserve required for 2014.

(t) Reinsurance

Reinsurance premiums are reported as a cost of purchased healthcare services and reinsurance recoveries are reported as a reduction of related purchased healthcare services.

(u) Risk Corridor Payable

The federal government and Health Plan share profit and losses on the Medicare Part D benefit around a target amount within defined risk corridors determined in the annual Medicare bid. At December 31, 2014 and 2013, Health Plan had an experience rating refund liability and revenue reduction of $23,489 and $550,520, respectively, related to the anticipated risk corridor adjustment.

(v) Non-Emergent Medical Transportation (NEMT)

OHA began to transfer the administration of NEMT to the CCOs in 2014. Jackson Care Connect and Columbia Pacific began offering NEMT benefits in October 2014 and January 2015, respectively.

(w) Special Needs Rate Group (SNRG)

In 2013, OHA began providing a risk sharing arrangement with the CCOs for medical costs of the SNRG Medicaid population if actual experience is more or less than five percent of target expenses. With expenses less than target, the Parent had estimated liabilities of $5,295,000 and $2,122,227, at December 31, 2014 and 2013, respectively, included in Premium Recoupment Payable.

(x) Minimum Medical Loss Ratio

CCOs are required to maintain a minimum medical loss ratio (MMLR) of at least 80% for the ACA Expansion Population. CCOs will need to rebate to OHA any dollar amount short of the 80% ratio for the period from July 1, 2014 through December 31, 2015 and the expected rebates are included in premium recoupment payable.

(y) Risk Delegation Agreements

CareOregon accepts, through risk delegation agreements, the CCO physical health capitation and associated financial risk for Jackson Care Connect and Columbia Pacific CCOs, and for those Health Share members assigned to CareOregon. The majority of the CareOregon operating surplus generated by the Jackson Care Connect membership is payable back to Jackson Care Connect to invest in health improvement initiatives with its provider network and community partners, with limited downside risk for Jackson Care Connect. For the available operating surpluses generated by the Health Share membership, a stakeholder committee meets to determine future health care initiatives, transformation projects and provider network investments in the Portland Metro area.

(z) Housing with Services

In 2014, the Parent invested $69,000 in Housing with Services LLC, a collaboration among stakeholders in the community, providing health and social services for seniors and adults with special needs who live in certain affordable and public housing developments.

(aa) Income Taxes

The Internal Revenue Service has recognized CareOregon as exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. The wholly owned subsidiary, Health Plan, is a taxable nonprofit entity.

Income taxes or benefits arise primarily from the tax effects of the Health Plan’s transactions reported in the financial statements, and consist of taxes currently due or receivable plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary timing differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, measured by enacted tax rates for years in which the taxes are expected to be paid or recovered.

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The factors used to assess the likelihood of realization include the Organization’s forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions would not affect the ultimate realization of deferred tax assets in 2015, due to sufficient taxes paid in 2013 available for net operating loss (NOL) carryback or carryforward, though it could result in an increase in the Organization’s effective tax rate on future earnings beyond the available carryback periods.

The wholly owned subsidiaries, CareOregon Community Health, LLC; Care Access, LLC; Columbia Pacific CCO, LLC; and Jackson County CCO, LLC; are single-member limited liability corporations, working to further CareOregon’s exempt purpose. All of these LLCs are treated as disregarded entities for federal tax purposes and are reported with the Parent’s financial results on its Form 990.

The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization recognizes interest and penalties related to income tax matters in interest expense and other administrative expenses, respectively. Management regularly assesses the likelihood that deferred tax assets will be recovered from future taxable income, and records a valuation allowance, if necessary, to reduce deferred tax assets to the amounts believed to be realizable. See note 11 for additional details.

(bb) Advertising

Advertising costs are expensed as incurred and are recorded within other administrative expenses in the consolidated statements of activity. The Organization recorded advertising expense of $167,734 and $45,981 for the years ended December 31, 2014 and 2013, respectively.

(cc) New Accounting Pronouncements

In April 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-06, *Not-for-Profit Entities (Topic 958) Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)*. ASU 2013-06 provides guidance to not-for-profit entities that receive services from personnel of an affiliate company, including shared services, for which they are not charged at least the approximate amount of the direct personnel costs. The recipient entity is required to recognize the services rendered at an amount equal to the cost incurred by the affiliate for the personnel providing the services. If recognizing the value at cost would result in a significant overstatement or understatement of the actual value of the services received, then fair value of the service rendered may be used. Presentation of these transactions should be similar to the presentation of other such expenses or assets and should not be presented as a contra-expense or contra-asset. Disclosures of these transactions are required in accordance with Topic 850, *Related Party Disclosures*.

Not-for-Profit, Business-Oriented Health Care Entities is also updated to add references pointing back to these changes to Topic 958. The new standard is to be applied prospectively for fiscal years beginning after June 15, 2014. This standard will be effective for the Organization's 2015 consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Organization's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, *Income taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This standard will be effective for the Organization's 2015 consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Organization's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 makes comprehensive changes to previous revenue recognition guidance and to revenue disclosures. This standard will be effective for the Organization's 2017 consolidated financial statements. Management is evaluating the impact this standard will have on the Organization's consolidated financial statements.

(dd) Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements.

The Organization has evaluated subsequent events through May 4, 2015, which is the date the consolidated financial statements were issued.

(3) Investments – Unrestricted

The amortized cost basis and estimated fair market value of the Organization's unrestricted investments are as follows:

	December 31, 2014			
	Cost	**Unrealized gains**	**Unrealized losses**	**Fair market value**
U.S. Treasury Notes	$ 71,297,289	2,369,999	(208,817)	73,458,471
Canadian Government Agency Bond	499,356	23,444	—	522,800
U.S. Government Agency Bonds	51,427,671	1,022,852	(214,439)	52,236,084
Corporate bonds	89,158,616	2,380,492	(346,185)	91,192,923
Municipal bonds	4,814,425	197,825	(23,542)	4,988,708
Mutual and commingled funds	44,954,966	16,959,558	(121,428)	61,793,096
Other asset backed securities	10,396,614	6,444	(16,017)	10,387,041
Alternative investments	11,566,153	1,318,949	(81,850)	12,803,252
	$ 284,115,090	24,279,563	(1,012,278)	307,382,375

	December 31, 2013			
	Cost	Unrealized gains	Unrealized losses	Fair market value
U.S. Treasury Notes	$ 31,379,019	2,046,289	(288,499)	33,136,809
Canadian Government Agency Bond	197,867	13,843	—	211,710
U.S. Government Agency Bonds	32,084,771	804,734	(417,199)	32,472,306
Corporate bonds	59,971,434	1,887,356	(385,708)	61,473,082
Municipal bonds	9,341,450	259,263	(161,447)	9,439,266
Mutual and commingled funds	25,127,074	14,449,176	—	39,576,250
Other asset backed securities	7,748,648	14,589	(20,602)	7,742,635
Alternative investments	6,257,213	1,522,139	(168)	7,779,184
	$ 172,107,476	20,997,389	(1,273,623)	191,831,242

Investment income from unrestricted investments includes interest and dividend income of $6,639,644 and $5,737,728 in 2014 and 2013, respectively. Unrealized and realized gains/losses are as follows:

	2014	2013
Unrealized losses	$ (9,795,133)	(6,749,078)
Realized losses	(134,229)	(58,568)
Unrealized gains	13,338,649	8,692,182
Realized gains	1,089,562	1,108,598
	$ 4,498,849	2,993,134

As of December 31, 2014 and 2013, there were no investments that were in a significant loss position for a continuous 12 months or longer period. See notes 4 through 6 for additional fair value disclosure.

The amortized cost and fair value of bonds by contractual maturity are as follows:

	December 31, 2014		December 31, 2013	
	Cost	Fair market value	Cost	Fair market value
Within 1 year	$ 6,456,360	6,619,753	3,976,854	4,101,769
1 - 5 years	99,388,050	101,009,874	69,824,222	72,029,321
5 - 10 years	71,390,387	73,215,549	38,192,287	38,893,991
10 - 20 years	4,270,793	5,149,936	3,144,671	3,848,870
Over 20 years	2,510,416	2,733,131	946,587	957,249
Structured securities	43,882,328	44,362,248	24,945,823	24,951,569
	$ 227,898,334	233,090,491	141,030,444	144,782,769

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(4) Investments – Contractual Reserves

Investments – contractual reserves, as of December 31, 2014 and 2013, consist of government and corporate bonds, U.S. Treasury notes, and money market funds. These funds are restricted as to their use, and are held to satisfy required risk-based reserves established by the OHA for the Parent.

As of December 31, 2014, the amortized cost basis and the estimated fair market value of the contractual reserves are $12,863,559 and $12,879,721, respectively, as compared to $8,882,444 and $8,877,682 as of December 31, 2013, respectively.

Investment income from contractual reserves includes interest and dividend income of $14,431 and $3,119 in 2014 and 2013, respectively. Investment earnings also include unrealized loss of $6,201 and $4,413 in 2014 and 2013, respectively.

(5) Investments – Statutory Reserves

Investments – statutory reserves, as of December 31, 2014 and 2013, consist of U.S. Treasury notes. These funds are required for Health Plan by DCBS.

As of December 31, 2014, the amortized cost basis and quoted fair market value of the statutory reserves are $304,362 and $304,464, respectively, as compared to $307,256 and $306,960 as of December 31, 2013, respectively.

Investment income from statutory reserves includes interest income of $4,500 in 2014 and $11,841 in 2013. Unrealized gains of $398 and unrealized losses of $$7,533 were recorded in 2014 and 2013, respectively.

(6) Fair Value of Investments

The table below shows the Organization’s investments as of December 31, 2014 and 2013 measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Organization to determine such fair value. Assets and liabilities are considered to be “fair value on a recurring basis” if fair value is regularly measured.

While estimates of fair value are based on management’s judgment of the most appropriate factors, had the Organization disposed of such items at December 31, 2014 and 2013, the actual sales prices may have differed. Since market values may differ depending on various circumstances, the estimated fair values as of December 31, 2014 should not necessarily be considered to apply at subsequent dates.

Investments measured at fair value comprise marketable securities and alternative investments. Marketable security fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The alternative investments are reported at net asset value (NAV) in accordance with FASB ASC Sub-Topic 820-10, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Company's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Organization's interest in the funds. The Organization reviews and evaluates the values provided by the investment managers and estimates the fair value of the alternative investments using the NAV as a practical expedient.

	Fair value measurements at December 31, 2014				
	Total fair value	Level one	Level two	Level three	
Money market funds – restricted	$ 41,935	41,935	—	—	
Government:					
U.S. Treasury Notes	86,600,721	86,600,721	—	—	Note a
Canadian Government Agency Bonds	522,800	—	522,800	—	
U.S. Agency Bonds	52,236,083	—	52,236,083	—	Note b
Corporate bonds	91,192,924	—	91,192,924	—	Note c
Municipal bonds	4,988,709	—	4,988,709	—	
Mutual and commingled funds	61,793,096	61,793,096	—	—	
Other asset-backed securities	10,387,040	—	10,387,040	—	
Alternative investments	12,803,252	—	12,803,252		
	$ 320,566,560	148,435,752	172,130,808	—	

	Fair value measurements at December 31, 2013				
	Total fair value	Level one	Level two	Level three	
Money market funds – restricted	$ 5,250,271	5,250,271	—	—	
Government:					
U.S. Treasury Notes	37,071,180	37,071,180	—	—	Note a
Canadian Government Agency Bonds	211,710	—	211,710	—	
U.S. Agency Bonds	32,472,303	—	32,472,303	—	Note b
Corporate bonds	61,473,086	—	61,059,646	413,440	Note c
Municipal bonds	9,439,266	—	9,439,266	—	
Mutual and commingled funds	39,576,249	39,576,249	—	—	
Other asset backed securities	7,742,634	—	7,742,634	—	
Alternative investments	7,779,185	7,779,185	—		
	$ 201,015,884	89,676,885	110,925,559	413,440	

a This class consists of U.S. Treasuries and TIPS investments.

b This class includes FHLB, FNMA, FHLMC, GNMA, and similar bond investments.

c This class consists primarily of investments in U.S. Corporate Bonds of large cap companies and includes bonds in the energy, information technology, utilities, financial services, retail, consumer products, transportation, and pharmaceutical sectors.

The Organization's interests in alternative investments represent 4.0% and 3.9% of the total investments as of December 31, 2014 and 2013, respectively. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition.

(7) Reinsurance

In the normal course of business, the Organization seeks to limit its exposure to a loss on any single member, and to recover a portion of benefits paid by ceding reinsurance risks under excess coverage agreements. Reinsurance agreements do not relieve the Organization from its obligation to pay providers.

Amounts recoverable from reinsurance contracts are estimated in a manner consistent with the claim limits and conditions associated with the reinsurance policy. Reinsurance premiums and recoveries are reported as components of medical costs. In addition, the Organization is required to obtain certain reinsurance coverage as a contractor of OHA and CMS.

The reinsurer for CareOregon and Health Plan assumed 90% of the combined risk for hospital and physician services, in excess of $350,000 and $400,000, respectively, in 2014, and $400,000 and $350,000, respectively, in 2013. Aggregate coverage per single member for combined services for CareOregon and Health Plan was $3,000,000 and $2,000,000 in 2014, and $2,000,000 for both CareOregon and Health Plan in 2013. In addition to the private reinsurance coverage, CMS provided reinsurance on the Medicare Part D benefit by assuming 80% of the total covered out-of-pocket spending in excess of $6,455 and $6,734 during 2014 and 2013, respectively.

Total reinsurance premiums incurred in 2014 and 2013 were $5,354,015 and $1,995,903, respectively. Premium increase was due to coverage for additional members as a result of ACA expansion. Reinsurance recoveries earned in 2014 and 2013 were $4,739,552 and $1,304,115, respectively.

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(8) Fixed Assets

Fixed assets at December 31 consist of the following:

	2014	2013
Land	$ 2,704,520	2,704,520
Building	18,940,138	18,867,729
Computer software costs	7,099,271	7,097,260
Computer equipment	7,610,950	8,416,839
Office furnishings	2,229,034	2,260,036
Office equipment	1,253,525	1,300,190
Leasehold improvements	286,705	280,266
Work-in-process	1,015,523	743,587
	41,139,666	41,670,427
Less accumulated depreciation and amortization	(21,213,215)	(21,116,986)
	$ 19,926,451	20,553,441

Work-in-process assets are various fixed assets purchased and not yet placed in service. The majority of work-in-process assets include costs incurred to develop software for enrollment, billing, and other operational uses, and to upgrade hardware equipment.

Total depreciation and amortization expense at 2014 and 2013 was $3,410,263 and $3,351,059, respectively, and is included in other administrative expenses on the consolidated financial statements.

(9) Premium Deficiency Reserve

The Organization recorded a premium deficiency reserve (PDR) as described in note 2. The Organization recorded PDR estimates of $4,560,000 (.5% of premium revenue) for Health Plan only and $11,930,000 (2% of premium revenue) for Health Plan and CareOregon at the end of December 31, 2014 and 2013, respectively. No losses for CareOregon were incurred for 2013, due to better performance than anticipated. The net impact of recording the PDR’s and the related amortization on purchased healthcare expenses was a decrease of $7,370,000 in 2014 and an increase of $3,930,000 in 2013.

(10) Change in Incurred Claims and Claim Adjustment Expenses

Unpaid claims and claims adjustment expense includes both reported and unreported medical claims. Unpaid claims incurred but not reported represent an estimate of claims incurred for or on behalf of the Organization’s members that had not yet been reported to the Organization in the consolidated statements of financial position. Unpaid claims are based on a number of factors including hospital admission data and prior claims experience, as well as claims processing patterns; adjustments, if necessary, are made to medical expense in the period the actual claims costs are ultimately determined.

Claims adjustment expense represents costs incurred related to the claim settlement process such as costs to record, process, and adjust claims. These expenses are calculated using a percentage of current medical costs, based on historical cost experience.

For the years ended December 31, activity in the reserves for unpaid claims and claims adjustment expense was as follows (in thousands):

		2014	2013
Balances at January 1	$	57,395,311	53,548,875
Incurred related to:			
Current year		586,332,661	434,143,243
Prior years		(14,092,638)	(9,147,785)
Total incurred		572,240,023	424,995,458
Paid related to:			
Current year		(517,664,406)	(376,747,932)
Prior years		(43,302,673)	(44,401,090)
Total paid		(560,967,079)	(421,149,022)
Balances at December 31	$	68,668,255	57,395,311

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately adjudicated and paid. Liabilities are reviewed and revised as information regarding actual claims payments becomes known. Positive (negative) amounts reported for incurred related to prior years result from claims being adjudicated and paid for amounts more (less) than originally estimated.

(11) Employee Benefit Plans

The Parent has established a 401(k) plan covering all employees who are at least 18 years of age. The Parent matches 100% of employee deferrals up to 2% of compensation for participants who have worked 500 hours or more during the plan year. The plan includes a 3% nondiscretionary safe harbor employer contribution which immediately vests. Supplemental discretionary employer contributions are determined each year by the Organization’s Board of Directors. Eligible compensation is defined by the plan document. The discretionary contribution rate was 4% of eligible compensation in both 2014 and 2013. Discretionary contributions become fully vested after three years of service. Employees who work 1,000 or more hours during the plan year are considered vested for that plan year.

CareOregon made 401(k) contributions of $2,897,832 and $2,380,901 for the years ended December 31, 2014 and 2013, respectively. The total 401(k) plan contribution payable was $1,372,816 at December 31, 2014 and $1,130,285 at December 31, 2013.

Health Plan has two voluntary deferred compensation plans under Sections 457(b) and 457(f) of the Internal Revenue Code. Qualification for participation in the two plans is limited to directors, managers, and supervisors. During 2014 and 2013, the 457(b) plan allowed for a per employee maximum elective deferral of $17,500 per year. The 457(f) plan allows for employee deferrals up to 100% of salary and bonuses, though significant plan restrictions apply to the timing and availability of future distributions. The 457 plans allow for voluntary employer contributions.

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The 457 plans result in unsecured liabilities owed by the Parent to the participants for future payments. Should the Parent become insolvent, the employee deferrals would be considered "unsecured assets" and, as such, would be available to satisfy all creditor claims.

The Parent made no voluntary employer contributions to the 457 plans during 2014 and 2013. The total 457 plans' contribution payable was $70,455 and $41,228 as of December 31, 2014 and 2013, respectively.

(12) Income Taxes

Income taxes relate primarily to the Organization's for-profit Health Plan. Start-up expenses are expensed when incurred in accordance with GAAP, but are amortized over 15 years for tax purposes. PDR reserves for Health Plan were $4.6 million in 2014 and $3 million in 2013. The reserves are a component of accrued medical claims related deferred tax assets.

The Organization files income tax returns in the U.S. federal, state, and local jurisdictions. Tax years 2010–2014 remain subject to examination by those tax jurisdictions. The Organization does not have any uncertain tax positions. As of December 31, 2014, there were no accrued interest or penalties recorded in the financial statements.

The components of the deferred tax assets in the accompanying consolidated statements of financial position are as follows:

		2014	2013
Current deferred tax asset (liability):			
Accrued medical claims related	$	1,827,211	1,462,825
Start-up costs		50,567	50,567
Other prepaids		(48,427)	(3,626)
	$	1,829,351	1,509,766
Non-current deferred tax asset (liability):			
Start-up costs	$	252,833	303,400
Net operating losses (NOLs)		530,982	—
Unrealized gains		(500,941)	(391,620)
	$	282,874	(88,220)

No valuation allowance was needed on deferred tax assets.

Total deferred tax assets at December 31, 2014 and 2013 were $2,661,593 and $1,813,166, respectively.

Total deferred tax liabilities at December 31, 2014 and 2013 were $549,368 and $391,620, respectively.

The components of income tax expense are as follows:

		2014	2013
Health plan:			
Current federal	$	(2,184,920)	1,700,332
Current state and local		96,584	267,640
Current income tax (benefit) expense		(2,088,336)	1,967,972
Deferred federal		95,193	(1,498,595)
Deferred state and local		(785,914)	(142,208)
Deferred income tax (benefit) expense		(690,721)	(1,640,803)
Health plan income tax provision		(2,779,057)	327,169
Lean healthcare west		(2,052)	2,550
Parent income tax provision on unrelated business income		1,608	197
Total income tax (benefit) expense	$	(2,779,501)	329,916

The statutory rate at which Health Plan provides for income taxes differs from the effective tax rate under GAAP primarily due to the following:

	Year ended December 31					
	2014			2013		
		Amount	Rate		Amount	Rate
Health Plan provision computed at the statutory rate	$	(2,327,099)	34.0%	$	241,090	34.0%
Reconciling items net of federal tax benefit:						
State and local income taxes		(454,958)	6.7		82,786	11.7
Other		3,000	—		3,293	0.5
Health Plan income tax provision		(2,779,057)	40.7%		327,169	46.2%
Parent income tax provision unrelated:						
Business income tax		1,608			197	
Lean Healthcare West		(2,052)			2,550	
	$	(2,779,501)		$	329,916	

(13) Related-Party Transactions

In 2014 and 2013, the Organization’s Boards of Directors included representatives from the following entities that maintain contractual agreements or other transactions with the Organization: Addictions Recovery Center, Albertina Kerr Centers, Clatsop Behavioral Health, Coastal Family Health Center, Columbia Community Mental Health, Columbia Memorial Hospital, Community Health Center, Dunes

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Family Health Care, Greater Oregon Behavioral Health, Jackson County Health and Human Services, La Clinica, Lower Umpqua Hospital District, Medford Medical Clinic, Multnomah County Health Department, Neighborhood Health Center, OnTrack, PrimeCare, Salem Health, St. Charles Health System, Tillamook County Health & Human Services, Tillamook Family Counseling Center, Virginia Garcia Memorial Health Center, Asante Health System, Legacy Medical Group, Oregon Health & Science University, and Providence Medical Group and Tillamook Regional Medical Center.

The contractual agreements cover transactions in the normal course of business for medical services, network development, CSSI projects, rental agreements, operating agreements, and charitable contributions.

Neighborhood Health Center: CareOregon provides certain management services to Neighborhood Health Center under an informal agreement. Management services revenue earned under this agreement total $98,645 and $261,026 for the years ended December 31, 2014 and 2013, respectively.

CareOregon made several charitable contributions to Neighborhood Health Center to cover operating costs beyond revenues as it pursued Federally Qualified Health Center (FQHC) status, totaling $4,201,030 in 2013.

Community Health made monthly charitable contributions to fund operating losses of the Neighborhood Health Center Pain and Specialty Clinic in Washington County totaling $67,542 in 2014.

Total amounts receivable from Neighborhood Health Center as of December 31, 2014 and 2013 were $58,917 and $108,545, respectively.

Yamhill CCO: CareOregon and Yamhill CCO entered into a Management Services Agreement effective November 1, 2012 through December 31, 2014. The contract calls for automatic one-year renewals through December 31, 2017, unless and until either party provides written notice of nonrenewal at least 120 days prior to the end of the then-current term. Under the terms of the Management Services Agreement, the Parent is to administer the delivery of physical health services on behalf of Yamhill CCO. In addition, under the Management Services Agreement, Yamhill CCO will utilize the Parent’s personnel, office space, equipment, computer systems, software and operating methodologies to manage its business. Management services revenue earned under this agreement totaled $5,753,717 and $3,081,818 for the years ended December 31, 2014 and 2013, respectively. CareOregon will share with Yamhill CCO 25% of any margin earned from CareOregon’s performance of physical health management services and CCO management services.

In October 2012, CareOregon and Yamhill CCO entered into a Grant Agreement. Under the terms of the Grant Agreement, CareOregon contributed the following to Yamhill CCO: $2,400,000 to be used solely as their primary and secondary restricted reserve requirements in accordance with Yamhill CCO’s OHA Contract; $600,000 to be used to fund Yamhill CCO’s start-up and operating costs; and $500,000 to fund Yamhill CCO’s Transformation Fund.

Total amounts receivable from Yamhill CCO as of December 31, 2014 and 2013 were $216,990 and $663,721, respectively. Total amounts payable to Yamhill CCO as of December 31, 2014 and 2013 were $154,745 and $345,426, respectively.

Health Share of Oregon (Health Share): In April 2012, CareOregon and Health Share entered into a Management Services Agreement. The Management Services Agreement is effective for an initial term of five years and shall be automatically renewed for additional one-year terms following the initial term unless

 (Continued)

either party notifies the other of its intentions not to renew at least 180 days prior to the end of the then-current term. Under the terms of the Management Services Agreement, the Parent shall provide certain management services to Health Share including employee leasing, human resources, space, furnishings, supplies, financial services, IT services, and customer services. Management services revenue earned under this agreement totaled \$5,846,841 and \$4,372,504 for the years ended December 31, 2014 and 2013, respectively.

In August 2012, CareOregon and Health Share entered into a Grant Agreement. Under the agreement, CareOregon contributed \$16,500,000 to Health Share to establish their restricted reserve account required under the OHA contract. This contribution was reflected in the other administrative expenses line. The contribution is required to be returned to CareOregon upon the occurrence of certain events defined in the Grant Agreement. Health Share is required to return all or a portion of the contribution to CareOregon in the event of dissolution or winding up on or before September 1, 2022 or if the OHA terminates its agreement with Health Share on or before September 1, 2022. The amount of contribution to be returned to CareOregon is the amount remaining after discharge of all liabilities and obligations of Health Share. Further, if Health Share is in existence on September 1, 2022 and under the terms of the OHA contract, the amount of the primary and secondary reserve requirements for Health Share on September 1, 2022 is less than the amount of the grant, then Health Share shall return to CareOregon any portion of the grant that is in excess of the minimum reserves amount required to be maintained. The grant agreement releases restrictions on donated reserves after 10 years if reserves are still needed and Health Share is still operating under a similar Medicaid agreement with OHA.

CareOregon and Health Share have entered into a Risk Accepting Entity Participation Agreement (RAE Agreement) effective September 1, 2012 through December 31, 2014, which is automatically renewed for successive one-year terms until the agreement is terminated. Under the RAE Agreement, the Parent will arrange for services to Members on a fully capitated basis, where the Parent retains the risk.

Capitated revenue received from Health Share under the risk accepting agreement during 2014 and 2013 equaled \$509,532,691 and \$322,773,793, respectively. Total amounts receivable from Health Share as of December 31, 2014 and 2013 were \$919,181 and \$275,402, respectively. Total amounts payable to Health Share as of December 31, 2014 and 2013 were \$997,916 and \$100, respectively.

CareOregon and Health Share began participating in Center of Medicare & Medicaid Innovation (CMMI) grants as subrecipients of Providence's federal grants in 2013 to bring trained health resilience workers into the community, meeting with Tri-County members who are high utilizers of medical services. Assistance with connecting to services, medication adherence, and supportive visits are some of the program activities included in the \$1,676,151 of CMMI grant revenue and \$2,244,900 expenses in 2014. CMMI grant revenues were \$1,536,389 and CMMI grant expenses were \$1,680,833 in 2013. Expenditures are primarily salaries of health resilience workers.

Multnomah County Health Department: Rental payments by Multnomah County Health Department to the Organization were \$284,568 in 2014 and 2013. The rental agreement which was effective October 1, 2011, is for seven years with 2 five-year renewal options. The lease is cancelable by either party with six months written notice.

Oregon's Health CO-OP: In March 2012, CareOregon and Oregon's Health CO-OP entered into a Management Services Agreement. The Management Services Agreement was terminated effective

February 15, 2015 upon agreement of both parties. Under the terms of the Management Services Agreement, CareOregon provided certain management services to Oregon's Health CO-OP including staff, human resources, space, furnishings, supplies, financial services, IT services, and customer services. Management services revenue earned under this agreement totaled $847,539 and $2,230,882 for the years ended December 31, 2014 and 2013, respectively.

In January 2013, CareOregon paid $1,000,000 to Oregon's Health CO-OP to fund marketing for their company. In addition, CO-OP issued a surplus note, reflected as a note receivable of $1,200,000 to CareOregon in October 2013, and bears interest approximating market rates. The note is due on September 30, 2018 and is subordinate to the CMS loans, claims payments, operating expenses and reserve requirements. DCBS denied allowing the interest payment due September 2014 due to surplus concern. Accordingly, CareOregon fully established an allowance for doubtful accounts for the full $1,200,000 in 2014.

CareOregon recorded $4 million in contract reserves and contingent losses in 2013 for anticipated losses on its CO-OP management services agreement, which were fully utilized in 2014. The agreement charged for services based on a fixed per member per month fee and enrollment was much lower than expected.

Total amounts receivable from Oregon's Health CO-OP as of December 31, 2014 and 2013 were $221,833 and $543,863, respectively. Total amount payable to Oregon's Health CO-OP was $4,123 as of December 31, 2014 and 2013.

(14) Commitments and Contingencies

(a) Rental Agreements – Lessee

During 2012, CareOregon entered into a sublease for one floor of the Lincoln Building. The lease term is 36 months, expiring August 31, 2015. Total rental expense was $300,000 for the years ended December 31, 2014 and 2013.

Future minimum lease payments under the noncancelable operating leases are as follows:

Year ending December 31:		
2015	$	200,000
	$	200,000

(b) Rental Agreements – Lessor

Care Access purchased a medical office building in July 2009 and completed its renovation in August 2010. Care Access entered into a seven-year lease agreement with Multnomah County in August 2010 and signed the first amendment in October 2011 when it was fully occupied. Rental income earned in both 2014 and 2013 was $284,568.

Future minimum lease income from the medical building under operating leases is as follows:

Year ending December 31:		
2015	$	284,568
2016		284,568
2017		165,998
	$	735,134

(15) Retrospectively Rated Policies

Premium revenue includes revenue subject to retrospective rating features. CMS and Health Plan share profit and losses on the Part D (pharmacy) benefit within defined risk corridors around a target amount determined in the annual Medicare bid. At December 31, 2014 and 2013, Health Plan had an experience rating refund liability of $23,489 and $550,520, respectively, and a reduction of premium revenue of $361,528 and $99,033, respectively, related to the anticipated risk corridor adjustment. The amount of net premiums written by Health Plan in the years ended December 31, 2014 and 2013 subject to retrospective rating features were $13,337,109 and $13,927,924, respectively.

(16) Information Concerning Subsidiaries and Affiliates

During the 12 months ended December 31, 2014 and 2013, the subsidiaries incurred management fees (note 1). The management fees are as follows:

		2014	2013
Health Plan	$	9,583,882	7,999,603
Lean Healthcare West		509,680	427,821
Columbia Pacific		602,587	388,152
Jackson Care Connect		648,806	338,938
PrimaryHealth		—	103,640
	$	11,344,955	9,258,154

Amounts due from subsidiaries represent unpaid charges by the Parent for management services provided and claims paid by the Parent on behalf of the subsidiary.

(Continued)

The amounts due to the Parent at December 31, 2014 and 2013 were as follows:

	2014	2013
Health Plan	$ 1,026,359	917,712
Care Access	120	133
Community Health	—	501
Lean Healthcare West	527,969	371,904
Columbia Pacific	86,266	37,322
Jackson Care Connect	221,740	41,414
PrimaryHealth	—	6,054
	$ 1,862,454	1,375,040

The amounts due from the Parent at December 31, 2014 and 2013 were as follows:

	2014	2013
Health Plan	$ —	124,949
Community Health	—	1,814
Jackson Care Connect	20,132,969	—
PrimaryHealth	—	2,620,000
	$ 20,132,969	2,746,763

The Parent made equity transfers to its subsidiaries in 2014 and 2013 in the following amounts:

	2014	2013
Health Plan	$ —	11,400,000
Community Health	—	200,000
Lean Healthcare West	—	2,000,000
Columbia Pacific	2,000,000	—
Jackson Care Connect	2,000,000	—
	$ 4,000,000	13,600,000

In 2013, CareOregon contributed Transformation Funds to its subsidiaries Columbia Pacific, Jackson Care Connect, and PrimaryHealth of $250,000, $1,000,000, and $250,000, respectively. The intercompany activities described above were eliminated in the consolidated financial statements. In 2014, CareOregon contributed $2,000,000 each to Columbia Pacific and Jackson Care Connect to help meet the state reserve requirements due to increased membership.

Health Plan files required regulatory reports and financial statements with the DCBS in accordance with Statutory Accounting Principles (SAP). Prescribed SAP includes a variety of provisions outlined in publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations, and general administrative rules.

Differences between statutory reserves/unassigned surplus and statutory net income and change in net assets, as determined on a GAAP basis, primarily relate to differences in accounting for investments and for nonadmitted assets, which include pharmacy rebate receivables, prepaid expenses and deferred tax assets.

Health Plan is required by DCBS to maintain a minimum net capital of $3,000,000 and at least 300% of the authorized control level risk-based capital (RBC) as calculated in accordance with the NAIC. At December 31, 2014 and 2013, Health Plan's net capital and RBC exceeded the minimum requirements.

(17) Medical Loss Ratio

Effective January 1, 2011, as part of the Patient Protection and Affordable Care Act (Health Care Reform), minimum medical loss ratios (MLR) were mandated for all commercial fully insured medical plans with annual rebates owed to policyholders if the actual loss ratios, calculated in a manner prescribed by the U.S. Department of Health and Human Services (HHS) falls below certain targets. HHS issued guidance specifying the types of costs that should be included in benefit expense for purposes of calculating medical loss ratios.

Beginning with the 2014 contract year, MA-PD became subject to MLR requirements similar to the commercial fully insured medical plans. The target medical loss ratios for the Medicare plans is 85%. The Company's medical loss ratios were above the minimum target levels, and no liability for rebates was recorded in 2014.

(18) Commitments and Contingencies

(a) Regulatory

The Company is subject to numerous and complex laws and regulations of federal, state, and local governments, and accreditation requirements. Compliance with such laws, regulations, and accreditation requirements can be subject to retrospective review and interpretation, as well as regulatory actions. These laws and regulations include, but are not necessarily limited to, requirements of tax exemption, government reimbursement, government program participation, privacy and security, false claims, accreditation, and healthcare reform. In recent years, government activity has increased with respect to compliance and enforcement actions.

In the ordinary course of business operations, the Company is subject to periodic reviews, investigations, and audits by various federal, state, and local regulatory agencies and accreditation agencies.

The Company's compliance with a wide variety of rules and regulations and accreditation requirements applicable to its business may result in certain remediation activities and regulatory fines and penalties, which could be substantial. Where appropriate, reserves have been established for such sanctions. While management believes these reserves are adequate, the outcome of legal and regulatory matters is inherently uncertain, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on the financial position or results of operations.

(19) Health Care Reform

(a) Industry Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations included, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud, abuse statutes, and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties. Management is not aware of noncompliance with government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory or state actions known or unasserted at this time.

(b) Health Care Reform

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively, the Affordable Care Act). The Affordable Care Act addresses a broad range of topics affecting the healthcare industry, including a significant expansion of healthcare coverage. The expansion is accomplished primarily through incentives to individuals to obtain and employers to provide healthcare coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the healthcare reform legislation were effective immediately; others will be phased in through 2016.

Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely continue to affect the Company. The effect of the changes that will be required in future years are not determinable at this time.

(c) Payments from Federal and State Health Care Programs

Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenue is subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively Government Agents). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

(20) Subsequent Events

In the fall of 2014, OHA began a broad renewal application process for members on OHP. After member outreach and extending the due date until April 30, 2015, to give members additional time to complete renewal applications, OHA disenrolled those members who haven't yet returned their applications, effective May 1, 2015.

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENTS

CAREOREGON, INC. AND SUBSIDIARIES

Consolidating Statement of Financial Position

December 31, 2014

	CareOregon	Columbia Pacific LLC	Jackson Care Connect LLC	PrimaryHealth Josephine County	Other subsidiaries	Total prior to eliminations	Eliminations	Consolidated
Current assets:								
Cash and cash equivalents	$ 28,424,587	2,748,855	3,646,936	—	1,730,848	36,551,226	—	36,551,226
Investments – unrestricted	260,780,681	—	—	—	46,601,694	307,382,375	—	307,382,375
Maternity case rate receivable, net of allowance for doubtful accounts of $1,105,029 in 2014	3,214,871	672,028	316,631	—	—	4,203,530	(978,775)	3,224,755
Reinsurance recoveries receivable	4,053,000	—	—	—	16,000	4,069,000	—	4,069,000
Interest receivable	1,111,301	1,975	3,884	—	387,253	1,504,413	—	1,504,413
Pharmacy rebates receivable	246,351	—	—	—	511,368	757,719	—	757,719
Premium receivable	—	10,185	12,427	—	6,740,911	6,763,523	—	6,763,523
Pay for performance incentive receivable	14,061,201	3,008,941	3,597,656	—	—	20,667,798	—	20,667,798
Other receivables	1,709,242	1,453,049	1,544,550	—	3,274,333	7,981,174	(2,954,440)	5,026,734
Prepaid expenses, other current assets	2,421,116	—	—	—	462,235	2,883,351	—	2,883,351
Deferred tax asset	—	—	—	—	1,829,351	1,829,351	—	1,829,351
Intercompany receivable	1,862,454	—	20,130,090	—	—	21,992,544	(21,992,544)	—
Total current assets	317,884,804	7,895,033	29,252,174	—	61,553,993	416,586,004	(25,925,759)	390,660,245
Assets limited as to use:								
Investments – statutory reserves	—	—	—	—	304,464	304,464	—	304,464
Investments – contractual reserves	3,638,383	4,359,977	4,881,361	—	—	12,879,721	—	12,879,721
Total assets limited as to use	3,638,383	4,359,977	4,881,361	—	304,464	13,184,185	—	13,184,185
Fixed assets, net of accumulated depreciation and amortization of $21,213,216 in 2014	17,209,265	—	39,392	—	2,677,794	19,926,451	—	19,926,451
Other assets:								
Noncurrent deferred taxes	—	—	—	—	282,874	282,874	—	282,874
Investments in housing and dental organizations	149,000	—	—	—	—	149,000	—	149,000
Lease deposits	16,250	—	3,700	—	—	19,950	—	19,950
Note receivable, net of allowance for doubtful account of $1,200,000 in 2014	—	—	—	—	—	—	—	—
Total other assets	165,250	—	3,700	—	282,874	451,824	—	451,824
Total assets	$ 338,897,702	12,255,010	34,176,627	—	64,819,125	450,148,464	(25,925,759)	424,222,705

(Continued)

CAREOREGON, INC. AND SUBSIDIARIES

Consolidating Statement of Financial Position

December 31, 2014

	CareOregon	Columbia Pacific LLC	Jackson Care Connect LLC	PrimaryHealth Josephine County	Other subsidiaries	Total prior to eliminations	Eliminations	Consolidated
Current liabilities:								
Accrued medical claims payable	$ 54,766,704	—	—	—	13,901,551	68,668,255	—	68,668,255
Claims adjudicated pending payment	5,071,201	—	—	—	2,452,909	7,524,110	—	7,524,110
Premium deficiency reserve	—	—	—	—	4,560,000	4,560,000	—	4,560,000
Managed care contracts payable	246,733	89,899	97,203	—	—	433,835	—	433,835
Deferred revenue	—	756,857	640,202	—	31,714	1,428,773	—	1,428,773
Accounts payable and accrued expenses	7,345,664	704,707	351,710	—	1,284,652	9,686,733	(978,775)	8,707,958
Medicare advances payable	—	—	—	—	21,340	21,340	—	21,340
Risk corridor payable	—	—	—	—	23,489	23,489	—	23,489
Accrued payroll and benefits	5,125,902	—	—	—	—	5,125,902	—	5,125,902
Premium recoupment payable	25,800,942	1,456,000	8,627,887	—	35,217	35,920,046	(2,954,441)	32,965,605
Pay for performance incentive payable	17,156,061	3,524,304	4,488,899	—	—	25,169,264	—	25,169,264
Intercompany payable	20,132,969	86,266	218,860	—	1,554,448	21,992,543	(21,992,543)	—
Total current liabilities	135,646,176	6,618,033	14,424,761	—	23,865,320	180,554,290	(25,925,759)	154,628,531
Net assets:								
Temporarily restricted	—	250,000	—	—	—	250,000	—	250,000
Unrestricted funds	203,251,526	5,386,977	19,751,866	—	40,953,805	269,344,174	—	269,344,174
Total net assets	203,251,526	5,636,977	19,751,866	—	40,953,805	269,594,174	—	269,594,174
Total liabilities and net assets	$ 338,897,702	12,255,010	34,176,627	—	64,819,125	450,148,464	(25,925,759)	424,222,705

See accompanying independent auditors’ report.

CAREOREGON, INC. AND SUBSIDIARIES

Consolidating Statement of Activities and Changes in Net Assets

Year ended December 31, 2014

	CareOregon	Columbia Pacific LLC	Jackson Care Connect LLC	Primary Health Josephine County	Other Subsidiaries	Total prior to eliminations	Eliminations	Consolidated
Revenue:								
Premium revenue	$ 710,252,655	138,860,236	148,305,100	—	161,047,696	1,158,465,687	(176,039,219)	982,426,468
Management fee revenue	24,019,568	—	—	—	—	24,019,568	(11,300,956)	12,718,612
Other revenue and grant revenue	1,958,000	734,388	585,588	—	652,653	3,930,629	—	3,930,629
Total revenue	736,230,223	139,594,624	148,890,688	—	161,700,349	1,186,415,884	(187,340,175)	999,075,709
Operating expenses:								
Purchased healthcare	608,131,316	137,553,782	133,485,051	—	152,092,264	1,031,262,413	(176,039,220)	855,223,193
Salaries and benefits – General and Administrative	25,338,722	594,369	622,973	—	7,525,301	34,081,365	(55,830)	34,025,535
Other administrative expenses	10,672,511	203,095	363,841	—	8,544,251	19,783,698	—	19,783,698
Management services expenses	24,240,727	—	—	—	798,823	25,039,550	(11,245,125)	13,794,425
Grant and business development expenses	3,279,030	475,375	—	—	—	3,754,405	—	3,754,405
Charitable contributions	1,730,434	181,544	601,194	—	—	2,513,172	—	2,513,172
Claims administration	1,505,230	—	—	—	—	1,505,230	—	1,505,230
Premium deficiency reserve	(8,930,000)	—	—	—	1,560,000	(7,370,000)	—	(7,370,000)
Loss on disposal of fixed assets	339,738	—	—	—	—	339,738	—	339,738
Bad debt expense	1,200,000	—	—	—	—	1,200,000	—	1,200,000
Contract losses	—	—	—	—	—	—	—	—
Managed care taxes	—	—	—	—	—	—	—	—
Total operating expenses	667,507,708	139,008,165	135,073,059	—	170,520,639	1,112,109,571	(187,340,175)	924,769,396
Revenues over (under) operating expenses	68,722,515	586,459	13,817,629	—	(8,820,290)	74,306,313	—	74,306,313
Other income (expense):								
Investment income, net of transaction, custodial and advisory fees of $503,912 in 2014	7,830,014	(2,050)	2,243	—	1,831,150	9,661,357	—	9,661,357
Other income	203,714	—	—	—	1,526	205,240	—	205,240
	8,033,728	(2,050)	2,243	—	1,832,676	9,866,597	—	9,866,597
Income (loss) from continuing operations, before income taxes	76,756,243	584,409	13,819,872	—	(6,987,614)	84,172,910	—	84,172,910
Income tax expense	1,608	—	—	—	(2,781,109)	(2,779,501)	—	(2,779,501)
Income from operations	76,754,635	584,409	13,819,872	—	(4,206,505)	86,952,411	—	86,952,411
Change in net worth before temp restricted	76,754,635	584,409	13,819,872	—	(4,206,505)	86,952,411	—	86,952,411
Temporarily restricted net assets	(225,001)	250,000	(374,000)	—	—	(349,001)	—	(349,001)
Change in net assets	76,529,634	834,409	13,445,872	—	(4,206,505)	86,603,410	—	86,603,410
Net assets, beginning of year	127,746,429	2,802,568	4,305,994	2,901,072	45,234,701	182,990,764	—	182,990,764
Equity transfer	(1,024,537)	2,000,000	2,000,000	(2,901,072)	(74,391)	—	—	—
Net assets, end of year	$ 203,251,526	5,636,977	19,751,866	—	40,953,805	269,594,174	—	269,594,174

See accompanying independent auditors' report.