CASCADE COMPREHENSIVE CARE, INC. & SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

MSP CERTIFIED PUBLIC ACCOUNTANTS

Cascade Comprehensive Care, Inc. & Subsidiary
Index to Consolidated Financial Statements
December 31, 2014

A1214-21655-6

Independent Auditors' Report

The Board of Directors
Cascade Comprehensive Care, Inc. & Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Cascade Comprehensive Care, Inc. and its subsidiary which comprise the consolidated balance sheets as of December 31, 2014 and 2013 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the 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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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 auditor's 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 Cascade Comprehensive Care, Inc. and its subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Molatore, Scroggin, Peterson & Co LLP
Certified Public Accountants

Klamath Falls, Oregon
June 24, 2015

Terrence J. Scroggin C.P.A ~ Andrew E. Peterson C.P.A ~ Gerrin P. DeGroot C.P.A ~ Richard F. Dillard C.P.A. *(1961-2014)*

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Cascade Comprehensive Care, Inc. & Subsidiary
Consolidated Balance Sheets
December 31, 2014

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	$ 15,396,727	$ 5,455,389
Short term investments	2,048,125	1,657,315
Receivables	2,782,671	1,954,550
Inventory	23,413	6,823
Prepaid expenses	42,788	59,521
Income tax refunds receivable	-	12,500
Total Current Assets	20,293,724	9,146,098
Fixed Assets		
Property and equipment, net	155,114	215,422
Other Assets		
Investments	8,227,137	7,464,899
Restricted statutory reserve	1,412,857	1,415,637
Deferred tax asset-long term	16,020	47,000
Organizational fees, net	1,494	1,494
Fees not amortized	68,412	68,412
Goodwill	126,328	126,328
Total Other Assets	9,852,248	9,123,770
Total Assets	$ 30,301,086	$ 18,485,290

The notes to the financial statements are an integral part of these financial statements

Cascade Comprehensive Care, Inc. & Subsidiary
Consolidated Balance Sheets
December 31, 2014

Liabilities and Stockholder's Equity

	2014	2013
Current Liabilities		
Accounts payable	36,979	258,791
Income taxes payable	864,611	-
Accrued expenses	1,342,340	2,231,585
Withheld payable	2,214,092	1,713,586
Claims payable	5,592,994	2,910,890
Risk pool payable	10,030,348	3,516,781
Total Current Liabilities	20,081,364	10,631,633
Long-term Liabilities		
Deferred tax liability	47,000	60,000
Total Long-term Liabilities	47,000	60,000
Total Liabilities	20,128,364	10,691,633
Stockholder's Equity		
Class A common stock, 1 share at $1,000 par value, 16 shares at $194 par value, 500 authorized, 17 shares issued and outstanding	4,104	3,686
Class B common stock, $1,000 par value, 500 shares authorized, 30 shares issued and outstanding	30,000	30,000
Class C common stock, $1,000 par value, 500 shares authorized, 1 share issued and outstanding	1,000	1,000
Class D non-voting common stock, no par value, 10,102 shares authorized, 10,102 shares issued and outstanding	92,430	95,985
Additional paid in capital	448,246	445,664
Retained earnings	9,596,942	7,217,322
Total Stockholder's Equity	10,172,722	7,793,657
Total Liabilities and Stockholder's Equity	$ 30,301,086	$ 18,485,290

The notes to the financial statements are an integral part of these financial statements

Cascade Comprehensive Care, Inc. & Subsidiary
Consolidated Statements of Income
For the Years Ended December 31, 2014

	2014	2013
Revenue		
Contract revenue	$ 56,719,155	$ 41,719,126
State provider tax	-	(298,821)
HRA plan	(9,108,217)	(7,623,716)
Stoploss recoveries	168,867	258,832
Transformation grant revenue	927,465	463,733
Total Revenue	48,707,270	34,519,154
Operating Expenses		
Claim and capitation expense	41,030,189	29,212,267
ATRIO medical pool surplus and provider bonus	731	-
Stoploss Insurance	689,435	571,189
Salaries and benefits	2,492,667	2,451,856
Administrative expenses	2,411,184	1,770,005
Total Operating Expenses	46,624,206	34,005,317
Total Operating Income	2,083,064	513,837
Other Income (Expense)		
Net Equity Gain/(Loss) in ATRIO Health Plans and Klamath Medical Business Center	762,238	936,674
ATRIO Income	705,087	631,263
ATRIO Medical Incentive Pool	209,642	(263,311)
Realized Gain/(Loss) on sale of bonds	(832)	
Unrealized Gain/(Loss) on bonds	(64,305)	
Lease and other income	72,700	73,378
Investment income	60,000	50,000
Investment expense	(14,682)	(10,819)
Interest Income	60,625	84,065
Interest expense	(91)	(376)
Total Other Income (Expense)	1,790,382	1,500,874
Net Income Before Income Tax Provision	3,873,446	2,014,711
Income Tax Provision	(1,293,800)	(484,173)
Net Income	$ 2,579,646	$ 1,530,538

The notes to the financial statements are an integral part of these financial statements

Cascade Comprehensive Care, Inc. & Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2014

	Common Stock		Additional Paid-In	Retained	
	Shares	Amount	Capital	Earnings	Total
Beginning Balance January 1, 2013	10,990	$ 562,171	$ 445,664	$ 5,686,784	$ 6,694,619
Stock issuance	32	-	-	-	- -
Stock redemption	(863)	(431,500)			(431,500)
Net income	-	-	-	1,530,538	1,530,538
Ending Balance December 31, 2013	10,159	130,671	445,664	7,217,322	7,793,657
Stock issuance	336	5,000	251,708		256,708
Stock Redemption	(345)	(8,137)	(249,126)	-	(257,263)
Dividends	-	-	-	(200,026)	(200,026)
Net income	-	-	-	2,579,646	2,579,646
Ending Balance December 31, 2014	10,150	$ 127,534	$ 448,246	$ 9,596,942	$ 10,172,722

The notes to the financial statements are an integral part of these financial statements

Cascade Comprehensive Care, Inc. & Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2014

	2014	2013
Cash Flows From Operating Activities		
Net income	$ 2,579,646	$ 1,530,538
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	83,936	68,198
Net equity income in ATRIO Health Plans and Klamath Medical Business Center	(762,238)	(951,405)
(Increase) decrease in:		
Accounts receivable	(828,121)	(1,549,342)
Prepaid assets	29,233	(26,750)
Inventory	(16,590)	(3,468)
Deferred tax asset	30,980	(11,000)
Prepaid income taxes	-	(12,500)
Restricted reserve	2,780	(207,838)
Increase (decrease) in:		
Accounts payable	(221,812)	227,350
Income taxes payable	864,611	(22,392)
Accrued liabilities	1,861,375	1,362,436
Withheld payables	40,181	223,451
Claims and risk payables	6,905,375	(916,953)
Deferred tax liability	(13,000)	34,000
Net Cash Provided/(Used) by Operating Activities	10,556,356	(255,675)
Cash Flows From Investing Activities		
Purchase of short term investments	(390,810)	(256,916)
Purchases of fixed assets	(23,627)	(132,909)
Net Cash (Used) by Investing Activities	(414,437)	(389,825)
Cash Flows From Financing Activities		
Dividends paid	(200,026)	-
Retirement of common stock	(257,263)	-
Issuance of common stock	256,708	(431,500)
Net Cash (Used) by Financing Activities	(200,581)	(431,500)
Net increase/(decrease) in cash and cash equivalents	9,941,338	(1,077,000)
Cash and cash equivalents at beginning of year	5,455,389	6,532,389
Cash and cash equivalents at end of year	$ 15,396,727	$ 5,455,389

The notes to the financial statements are an integral part of these financial statements

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Cascade Comprehensive Care, Inc. (the Company), successor to Klamath Comprehensive, Inc., was organized under the State of Oregon and started operations January, 1996. The Company is currently under contract (the Contract) with the State of Oregon, Department of Human Resources, and the Division of Medical Assistance Programs (DMAP) to provide prepaid health services to Klamath County, Oregon as a fully capitated health plan. The Contract is funded by the State of Oregon and is reviewed and renewed annually. If the contract were not renewed or discontinued, it would materially affect the financial position of the Company. As of December 31, 2014, the Contract has been renewed for an additional year.

Cascade Health Alliance, LLC was formed in 2012 as a wholly own subsidiary by Cascade Comprehensive Care as a Coordinated Care Organization (CCO) for most Klamath County Medicaid residents and is certified by the State of Oregon.

On May 19, 2013 a memorandum of understanding was signed between Klamath County and Cascade Health Alliance regarding the provision of the mental health safety net. The Oregon Health Authority approved a CCO start date of September 1, 2013. With the announcement by the county in June 2013 that they would be closing the County Mental Health Department on June 30, 2013, CCC obtained contracts with the private mental health providers in order to have a sufficient mental health provider panel.

Principles of Consolidation

The accompanying financial statements include the accounts of Cascade Comprehensive Care and its wholly-owned subsidiary, Cascade Health Alliance, LLC.

All significant intercompany transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term are related to the determination of withheld payables and claims payable. In connection with the determination of the incurred but not reported claims, the Company obtains an independent actuarial review of historical claim expenses.

Fair Value of Financial Instruments

Fair value guidance (GAAP) requires the reporting of fair value for assets and liabilities. For financial instruments, including cash, short term investments, receivables, payables, and accruals, the carrying amount approximates fair value because of their short maturity.

Cash

Cash and cash equivalents include cash on hand, cash in banks, and cash in a brokerage account. The Company regularly maintains cash balances in financial institutions in excess of the Federal Deposit Insurance Corporation's limit. These cash balances are subject to credit loss in the event of nonperformance by the bank. The Company has not incurred any losses in any of these accounts to date.

Short Term Investments

The Company maintains a brokerage account which invests in various short term debt securities. These securities are carried at fair value which approximates cost.

Equity Investments

Investments in which the Company has a 20% to 50% interest or otherwise exercises significant influence are carried at cost adjusted for the Company's proportionate share of their undistributed earnings or losses.

Capitation Income

Capitation payments received under the Contract are recognized in the month in which the Company is obligated to provide care. During 2014 and 2013, approximately 95% and 99%, respectively, of operating revenues were generated from the Contract. As part of a risk-sharing incentive program, the Company also retains up to 15% of the interim payments of certain contractual providers

Note 1 – Nature of Activities and Summary of Significant Accounting Policies *(continued)*

against a risk-sharing fund. In the event of utilization in excess of budget, those providers bear the risk to the extent of the 15% of the fee-for-service fees.

Accounts Receivable
Accounts receivable consist primarily of the Maternity Case Rate Receivable, stop-loss recoveries receivable, and amounts due from ATRIO Health Plans, a related party. Risk of credit loss is negligible, therefore no allowance for doubtful accounts is provided. Due to the nature of the accounts receivable, the Company requires no collateral, has no policy for writing off bad debts, and does not charge interest on accounts receivable.

Inventory
Inventory is valued at the lower of cost or market.

Fixed Assets
Fixed assets are recorded at cost. Depreciation of fixed assets is provided using straight line methods over the estimated useful lives of the assets, ranging from five to twenty years. Depreciation expense for December 31, 2014 and 2013 was $83,936 and $68,198, respectively.

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and a gain or loss is included in operations.

Goodwill and Intangible Assets
The Company assesses goodwill for impairment annually. Impairment loss on goodwill is not recognized unless there is evidence of impairment based on the cash flows of the Company.

Health Care Service Cost Recognition
The Company contracts with various health care providers for the provision of certain health care services to its members. The Company compensates some of its providers on a capitation basis while other providers share the risk as outlined under Capitation Income. Operating expenses include all amounts incurred by the Company under the aforementioned contracts.

The cost of other health care services provided or contracted for includes losses paid during the period and the changes in the liability for unpaid losses and loss adjustment expenses. The reserves for losses and loss adjustment expenses include amounts estimated to settle individual claims that have been reported to the Company and additional amounts, determined based on actuarial assumptions, for losses incurred but not reported. The Company does not discount these reserves. Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate cost to settle the incurred losses may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed as the history of the Company grows, and any adjustments are reflected in earnings currently.

Accrued Medical Incentive Pool
Accrued medical incentive pool represents certain health care claims payables, which were withheld from providers during 2014 and 2013 and the specialist incentive accrual. Payments from the incentive pool reserve may be limited by payment of health care costs to providers in excess of the agreed-upon medical target loss ratio as stipulated in the participating provider’s contract. As part of a risk-sharing incentive program, the Company retains up to 15% of the interim payments of certain contractual providers against a risk-sharing fund. In the event of utilization in excess of budget, those providers bear the risk to the extent of the 15% of the fee-for-service fees.

Income Taxes
The income tax returns are based on calculations and assumptions that are subject to examination by various tax authorities. As reflected in the accompanying financial statements, the Company is recognizing its portion of deferred tax assets and liabilities. In accordance with FASB guidance, the Company records income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. A valuation allowance is established when it is more likely than not that a deferred tax asset is not realizable in the foreseeable future. Tax assets are reviewed regularly for recoverability. Current income taxes are based upon the Company's current income and the current tax rate.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies *(continued)*

Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The principal difference arises primarily from compensated absences, amortization of intangibles, and depreciation methods. The change in the amount of deferred income taxes is recorded as a credit or debit to income currently. The Company's policy for accounting for interest and penalties is to include interest in interest expense and penalties under non-deductible expenses, both as an integral part of the income statement presentation. The Company believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain positions that are material to the financial statements. The Company's income tax returns are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

Advertising
All costs of advertising of the Company's services are charged to expense as incurred and totaled $11,810 and $29,529 for 2014 and 2013, respectively.

Compensated Absences
The Company accrues vacation, holiday, and sick leave benefits. Accrued leave was $50,804 and $135,105 for the years ended December 31, 2014 and 2013, respectively. These amounts are included in accrued expenses on the balance sheet. The Company also has a long-term sick leave policy. This policy allows full-time employees to earn up to five days a year for personal illness, or to tend to a serious illness suffered by a family member. The total maximum number of days that can be accrued is 46 to 66 based on years of employment.

Note 2 – Investments

KMBC, LLC
In 2004, the Company acquired one-half interest in KMBC, LLC for $656,197. The other half is owned by Sky Lakes Medical Center. The equity method of accounting was adopted for this investment. Equity investment income of $29,575 and $39,336 was recognized in 2014 and 2013, respectively.

ATRIO Health Plans, Inc.
ATRIO Health Plans, Inc. (ATRIO) is a Medicare Advantage Plan provider, which has also contracted with the Federal government to provide Medicare claims service in various counties in Oregon. The Company has owned an equity investment in ATRIO since its inception in 2004.

In 2011, the Company recapitalized its investment in ATRIO and purchased additional common stock in the amount of $2,001,000. In 2014 and 2013, a net increase in equity was recognized of $875,850 and $912,067, respectively.

The total cost of the Company's investment at December 31, 2014 and 2013 was $3,703,384.

There is no market for the common stock of ATRIO Health Plans, Inc. or any reasonable method for estimating the value of KMBC, LLC, and, accordingly, no quoted market prices are available. Following is a summary of financial position and results of operations of ATRIO Health Plans, Inc. and KMBC, LLC:

	2014	2013
Current assets	$ 40,350,892	$ 38,512,778
Property and equipment, net	1,121,731	1,119,709
Total assets	$ 41,472,623	$ 39,632,487
Current liabilities	16,275,000	17,434,175
Stockholders' equity	24,491,871	22,198,312
Total liabilities and stockholders' equity	$ 40,766,871	$ 39,632,487
Sales	$ 148,388,721	$ 14,838,871
Net income	$ 2,706,484	$ 2,167,684

Note 2 – Investments *(continued)*

Statutory Reserve

Under the OMAP contract, the Company must establish restricted reserve funds to cover fee-for-service liabilities that would need to be covered in the event of insolvency. The reserve fund is required to be held by a third party. The Company maintained a primary restricted reserve in the amount of $397,094 for 2014 and $398,051 for 2013.

The Company is required to establish a secondary restricted reserve to cover additional State reserve requirements. This fund is held by a third party. This reserve is adjusted quarterly by an amount equal to 50 percent of the difference between the Company's average monthly fee-for-service liabilities and $250,000. At December 31, 2014 and 2013, the secondary reserve was $1,015,762 and $1,017,586, respectively.

Investment income from cash, cash equivalents, and short term investments was $19,434 for 2014 and $13,645 for 2013.

Note 3 – Accounts Receivable

Accounts receivable at December 31 consist of the following:

	2014	2013
Maternity case rate receivable	$ 456,030	$ 617,605
Stop-loss recoveries receivable	39,323	228,624
Notes Receivable	169,201	15,026
ATRIO risk settlement receivable	1,970,183	512,111
ATRIO 07 withhold overpayment	-	386,448
ATRIO receivable	110,727	100,722
Purchased Int Receivable - Bonds	27,357	42,956
Miscellaneous receivables	9,850	51,058
Total	$ 2,782,671	$ 1,954,550

Note 4 – Fixed Assets

Fixed assets at December 31 consist of the following:

	2014	2013
Office equipment	$ 541,100	$ 517,473
EZ Cap software and equipment	206,150	206,150
Electronic claims inload	48,130	48,130
Leasehold improvements	169,086	169,086
Less accumulated depreciation	(809,352)	(725,417)
Total	$ 155,114	$ 215,422

Note 5 – Withhold Payables

The Company and providers have entered into risk/incentive sharing agreements. Generally, under the terms of the agreement, 15% of fee-for-service payments are withheld. Based upon actual medical expenses compared to predetermined criteria, the amount withheld is either increased or decreased and paid annually to the provider. The amounts are as follows:

	2014	2013
Withhold payable	$ 2,214,092	$ 1,713,586
Risk pool payable	10,030,348	3,516,781
Total	$ 12,244,440	$ 5,230,367

Note 6 – Claims Payable and IBNR

Claims incurred represent capitation and non-capitation payments to providers for services rendered during the year. The claims payable liability is based on actuarial estimates related to the nature and volume of work performed by non-capitated providers. This estimated liability is evaluated annually by management in order to maintain it at a level that is sufficient to absorb probable incurred but not reported claims. Management's evaluation of the adequacy of the estimate is based on an annual actuarial review of historical claim experience.

Note 7 – Stop-Loss Insurance

The Company has a stop-loss insurance agreement with an insurance company to limit its losses on hospital inpatient and outpatient service claims and professional services. For hospital inpatient and outpatient services and for professional services, the terms of this agreement state the Company's retention per member per policy year for 2014 and 2013 is $200,000 and $200,000, respectively. The maximum amount payable by the insurance company per member per policy year for hospital and professional services combined is $1,250,000. There is no annual lifetime maximum. The coinsurance is 90% based on 100% of contract provider rates, subject to limitations.

Stop-loss insurance expense was as follows at December 31,

	2014	2013
Stoploss insurance premium expense	$ 689,435	$ 571,189
Stoploss recovery revenue	(168,867)	(258,832)
Net (Income) Expense	$ 520,568	$ 312,357

Note 8 – Profit Sharing Plan

The Company has a 401(k) profit sharing plan. All employees who are at least 21 years of age and have completed one year of employment are eligible to participate in the Company's plan. The 401(k) plan provides for contributions by the Company in such amounts as management may determine. In 2014 and 2013, the Company had 34 and 30, respectively, eligible employees participating in the plan. For years 2014 and 2013, the employer contribution was 5% and 5%, respectively, of qualified compensation. The expenses charged to operations for December 31, 2014 and 2013, were $61,168 and $62,301, respectively.

Note 9 – Income Taxes

The provision (benefit) for income taxes consists of the following at December 31:

	2014	2013
Current tax expense		
Federal	$ 1,040,000	$ 377,873
State	242,800	82,300
Total current tax expense	1,282,800	460,173
Deferred tax expense (benefit)		
Federal	10,000	21,000
State	1,000	3,000
Total deferred tax expense	11,000	24,000
Total provision for income taxes	$ 1,293,800	$ 484,173

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The major differences that give rise to the deferred tax liabilities and assets are depreciation, amortization, and unpaid compensated absences. It is reasonably certain that all deductible temporary differences will reverse in future years; therefore, no valuation allowance is needed.

Note 9 – Income Taxes *(contined)*

These amounts have been presented in the Company's financial statements at December 31, as follows:

	2014	2013
Noncurrent deferred tax asset	16,020	47,000
Noncurrent deferred tax liability	(47,000)	(60,000)

Note 10 – Stockholders' Equity

The four classes of common stock are differentiated by ownership. Class A shares are owned by primary care physicians. Class B shares are owned by specialists. Class C shares are hospital-owned. Class D share ownership is at the discretion of the Board of Directors.

On February 23, 2012, the Company's board of directors declared a five-for-one stock split on the shares of the Company's class D, no par value, common stock. Each shareholder of record on February 23, 2012, received four additional shares of class D common stock for each share of class D common stock then held. The stock was issued June 29, 2012. All references in the financial statements to the number of shares outstanding of the Company's Class D common stock have been restated to reflect the effect of the stock split for all periods presented.

Entities under contract with the Oregon Department of Human Resources, Division of Medical Assistance Programs (DMAP), are required to maintain a level of net worth that will provide for minimum adequate operating capital. The minimum level of net worth is a calculation of Discounted Premium Revenue to Net Worth. This ratio must be less than or equal to 20:1.

At December 31, 2014, the Company met the requirement, as calculated by DMAP, of $1,911,458.

Note 11 – Supplemental Cash Flow Disclosures

Cash paid for income taxes, (net of refunds) in 2014 and 2013 amounted to $411,209 and $480,600 respectively.

Cash paid for interest in 2014 and 2013 amounted to $92 and $376, respectively.

Note 12 – Related Party Transactions

The Company has stockholders who are also providers who receive payments for services rendered. Compensation to board members consisted of $306,000 in 2014 and $245,400 in 2013. Members of management of Sky Lakes Medical Center (SLMC) are on the board of the Company. SLMC is the primary hospital in the Company's service area and owns approximately 35% of the Company. The following summarizes amounts paid to SLMC:

	2014	2013
Claims	$ 8,966,381	$ 10,628,523
Capitation	1,299,360	899,028
Other provider payments	219,251	144,446
Total	$ 10,484,992	$ 11,671,997

Claims payable to SLMC were $613,781 for 2014 and $1,255,352 for 2013.

The building occupied by the Company is owned by KMBC, LLC and the Company owns a one half interest in the LLC. The base rent is calculated on the fair market value of the square footage occupied by the Company, plus additional rent (utilities, etc.) and other common expenses incurred. Rental expenses for the years ended December 31, 2014 and 2013 are $164,800 and $166,820, respectively. The lease terminated in November 2009 and turned into month-to-month rent through December 2014.

Note 13 – Concentration of Risks

Substantially all of the Company's business activities are with members in Klamath County.

As stated in Note 1, the Company is under contract with DMAP. Premium revenue represented 98% of total revenues for 2014 and 95% for 2013.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At December 31, 2014 and 2013, the Company had approximately $14,196,272 and $5,698,852 in excess of FDIC insured limits, respectively. The Company has experienced no losses on those accounts.

Note 14 – Commitments and Contingencies

The Company is party to legal proceedings incidental to its business. Although such litigation sometimes includes substantial demands for compensatory and punitive damages, in addition to contract liability, it is management's opinion that damages arising from such demands will not be material to the Company's financial position.

Note 15 – Subsequent Events

The Company evaluated other subsequent events through June 24, 2015, the date these financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

Cascade Health Alliance, LLC
Schedule of Assets, Liabilities and Equity
For the Year Ended December 31, 2014

Assets

		2014
Current Assets		
Cash and cash equivalents	$	12,574,713
Receivables		495,353
Inventory		23,413
Recevable from affiliate		5,758,857
Total Current Assets		18,852,336
Other Assets		
Restricted statutory reserve		1,412,857
Total Other Assets		1,412,857
Total Assets	$	20,265,193

Liabilities and Members' Equity

		2014
Current Liabilities		
Accrued expenses		875,727
Withheld payable		2,214,092
Claims payable		5,592,994
Risk pool payable		8,174,971
Total Current Liabilities		16,857,784
Total Liabilities		16,857,784
Members' Equity		
Members' Equity		3,407,409
Total Members' Equity		3,407,409
Total Liabilities and Members' Equity	$	20,265,193

Cascade Health Alliance, LLC
Schedule of Operations
For the Year Ended December 31, 2014

		2014
Revenue		
Contract revenue	$	56,719,155
HRA plan		(9,108,217)
Stoploss recoveries		168,867
Transformation grant revenue		927,465
Total Revenue		48,707,270
Operating Expenses		
Claim and capitation expense		41,030,189
Stoploss Insurance		689,435
Administrative expenses		4,919,357
Total Operating Expenses		46,638,981
Total Operating Income		2,068,289
Other Income (Expense)		
Lease and other income		10,487
Total Other Income (Expense)		10,487
Net Income Before Income Tax Provision		2,078,776
Income Tax Provision		(832,007)
Net Income	$	1,246,769

Cascade Health Alliance, LLC
Schedule of Cash Flows
For the Year Ended December 31, 2014

	2014
Cash Flows From Operating Activities	
Net income	$ 1,246,769
Adjustments to reconcile net income (loss)	
to net cash provided (used) by operating activities	
(Increase) decrease in:	
Accounts receivable	548,024
Due from Affiliates	(4,756,733)
Prepaid assets	189,302
Inventory	(16,590)
Restricted reserve	2,780
Increase (decrease) in:	
Accounts payable	345,501
Accrued liabilities	8,720,166
Claims and risk payables	1,488,816
Net Cash Provided/(Used) by Operating Activities	7,768,035
Net increase/(decrease) in cash and cash equivalents	7,768,035
Cash and cash equivalents at beginning of year	4,806,678
Cash and cash equivalents at end of year	$ 12,574,713