CASCADE COMPREHENSIVE CARE, INC. & SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

Cascade Comprehensive Care, Inc. & Subsidiary
Index to Consolidated Financial Statements
December 31, 2013 and 2012

MSP CERTIFIED PUBLIC ACCOUNTANTS

A1213-21655-10

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, 2013 and 2012 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, 2013 and 2012, 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
May 27, 2014

Terrence J. Scroggin C.P.A ~ Andrew E. Peterson C.P.A ~ Richard F. Dillard C.P.A. ~ Gerrin P. DeGroot C.P.A

824 Pine Street ~ Klamath Falls, OR 97601 ~ Phone: (541) 884-4164 ~ Fax: (541) 883-1232

Cascade Comprehensive Care, Inc. & Subsidiary
Consolidated Balance Sheets
December 31, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	5,455,389	6,532,389
Short term investments	1,657,315	1,400,396
Receivables	1,954,550	405,208
Inventory	6,823	3,355
Prepaid expenses	59,521	32,771
Income tax refunds receivable	12,500	-
Total Current Assets	9,146,098	8,374,119
Fixed Assets		
Property and equipment, net	215,422	150,711
Other Assets		
Investments	7,464,899	6,513,497
Restricted statutory reserve	1,415,637	1,207,799
Deferred tax asset-long term	47,000	36,000
Organizational fees, net	1,494	1,494
Fees not amortized	68,412	68,412
Goodwill	126,328	126,328
Total Other Assets	9,123,770	7,953,530
Total Assets	$ 18,485,290	$ 16,478,360

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

Cascade Comprehensive Care, Inc. & Subsidiary
Consolidated Balance Sheets
December 31, 2013 and 2012

Liabilities and Stockholder's Equity

	2013	2012
Current Liabilities		
Accounts payable	258,791	31,441
Income taxes payable	-	22,392
Accrued expenses	2,231,585	869,149
Withheld payable	1,713,586	1,490,135
Claims payable	2,910,890	2,638,197
Risk pool payable	3,516,781	4,706,427
Total Current Liabilities	10,631,633	9,757,741
Long-term Liabilities		
Deferred tax liability	60,000	26,000
Total Long-term Liabilities	60,000	26,000
Total Liabilities	10,691,633	9,783,741
Stockholder's Equity		
Class A common stock, 1 share at $1,000 par value, 19 shares at $194 par value, 500 authorized, 20 shares issued and outstanding	3,686	3,686
Class B common stock, $1,000 par value, 500 shares authorized, 29 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, 10,109 shares authorized, 10,109 shares issued and outstanding	95,985	527,485
Additional paid in capital	445,664	445,664
Retained earnings	7,217,322	5,686,784
Total Stockholder's Equity	7,793,657	6,694,619
Total Liabilities and Stockholder's Equity	$ 18,485,290	$ 16,478,360

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, 2013 and 2012

	2013	2012
Revenue		
Contract revenue	$ 41,719,126	$ 35,895,566
State provider tax	(298,821)	(361,629)
HRA plan	(7,623,716)	(6,699,224)
Stoploss recoveries	258,832	28,850
Transformation grant revenue	463,733	-
Total Revenue	34,519,154	28,863,563
Operating Expenses		
Claim and capitation expense	29,212,267	24,803,700
Stoploss Insurance	571,189	466,735
Salaries and benefits	2,451,856	1,967,726
Administrative expenses	1,770,005	1,059,777
Total Operating Expenses	34,005,317	28,297,938
Total Operating Income	513,837	565,625
Other Income (Expense)		
Net Equity Gain/(Loss) in ATRIO Health Plans and Klamath Medical Business Center	936,674	425,173
ATRIO Income	631,263	648,697
ATRIO Medical Incentive Pool	(263,311)	(97,642)
Lease and other income	73,378	15,183
Investment income	50,000	125,000
Investment expense	(10,819)	(9,333)
Interest Income	84,065	155,336
Interest expense	(376)	(805)
Total Other Income (Expense)	1,500,874	1,261,609
Net Income Before Income Tax Provision	2,014,711	1,827,234
Income Tax Provision	(484,173)	(598,391)
Net Income	$ 1,530,538	$ 1,228,843

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, 2013 and 2012

	Common Stock		Additional Paid-In	Retained	
	Shares	Amount	Capital	Earnings	Total
Beginning Balance January 1, 2012	2,238	562,171	$ 445,664	$ 4,457,941	$ 5,465,776
					-
5 for 1 stock split	8,752	-	-	-	-
Net income	-	-	-	1,228,843	1,228,843
Ending Balance December 31, 2012	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

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, 2013 and 2012

		2013	2012
Cash Flows From Operating Activities			
Net income	$	1,530,538	1,228,843
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization		68,198	63,073
Net equity income in ATRIO Health Plans and Klamath Medical Business Center		(951,405)	(383,661)
(Increase) decrease in:			
Organizational fees,net		-	(1,494)
Accounts receivable		(1,549,342)	445,555
Prepaid assets		(26,750)	(1,360)
Inventory		(3,468)	-
Deferred tax asset		(11,000)	68,000
Prepaid income taxes		(12,500)	-
Restricted reserve		(207,838)	1,692
Increase (decrease) in:			
Accounts payable		227,350	(925,972)
Income taxes payable		(22,392)	(215,981)
Accrued liabilities		1,362,436	119,698
Withheld payables		223,451	(415,253)
Claims and risk payables		(916,953)	527,139
Deferred tax liability		34,000	(74,000)
Net Cash Provided/(Used) by Operating Activities		(255,675)	436,279
Cash Flows From Investing Activities			
Purchase of short term investments		(256,916)	
Purchases of fixed assets		(132,909)	(43,758)
Net Cash (Used) by Investing Activities		(389,825)	(43,758)
Cash Flows From Financing Activities			
Retirement of common stock		(431,500)	-
Net Cash (Used) by Financing Activities		(431,500)	-
Net increase/(decrease) in cash and cash equivalents		(1,077,000)	392,521
Cash and cash equivalents at beginning of year		6,532,389	6,139,868
Cash and cash equivalents at end of year	$	5,455,389	$ 6,532,389

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, 2013, 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.

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

Capitation Income

Capitation payments received under the Contract are recognized in the month in which the Company is obligated to provide care. During 2013 and 2012, 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 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, 2013 and 2012 was $68,198 and $61,763, 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 2013 and 2012 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.

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

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.

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 $29,529and $4,703 for 2013 and 2012, respectively.

Compensated Absences
The Company accrues vacation, holiday, and sick leave benefits. Accrued leave was $135,105 and $121,077 for the years ended December 31, 2013 and 2012, 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 30.

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 $39,336 and $(47,587)was recognized in 2013 and 2012, 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 2013 and 2012, a net increase in equity was recognized of $912,067 and $431,248, respectively.

The total cost of the Company's investment at December 31, 2013 and 2012 was $3,703,384 and $3,703,384, respectively.

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:

Note 2 – Investments *(continued)*

	2013	2012
Current assets	$ 38,512,778	$ 30,886,195
Property and equipment, net	1,119,709	1,097,966
Total assets	$ 39,632,487	$ 31,984,161
Current liabilities	17,434,175	12,646,061
Stockholders' equity	22,198,312	19,338,100
Total liabilities and stockholders' equity	$ 39,632,487	$ 31,984,161
Sales	$ 148,388,721	$ 135,795,409
Net income	$ 2,167,684	$ 2,859,503

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 $398,051 for 2013 and $398,809 for 2012.

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, 2013 and 2012, the secondary reserve was $1,017,586 and $808,990, respectively.

Investment income from cash, cash equivalents, and short term investments was $13,645 for 2013 and $13,712 for 2012.

Note 3 – Accounts Receivable

Accounts receivable at December 31 consist of the following:

	2013	2012
Maternity case rate receivable	617,605	$ 194,684
Stop-loss recoveries receivable	228,624	-
Notes Receivable	15,026	40,000
ATRIO risk settlement receivable	512,111	-
ATRIO 07 withhold overpayment	386,448	-
ATRIO receivable	100,722	148,728
Purchased Int Receivable - Bonds	42,956	21,646
Miscellaneous receivables	51,058	150
Total	$ 1,954,550	$ 405,208

Note 4 – Fixed Assets

Fixed assets at December 31 consist of the following:

	2013	2012
Office equipment	517,473	$ 415,763
EZ Cap software and equipment	206,150	174,950
Electronic claims inload	48,130	48,130
Leasehold improvements	169,086	169,086
Less accumulated depreciation	(725,417)	(657,219)
Total	$ 215,422	$ 150,710

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:

	2013	2012
Withhold payable	$ 1,120,646	$ 1,490,135
Risk pool payable	3,516,781	4,706,427
Total	5,605,517	$ 6,196,562

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 2013 and 2012 is $200,000 and $125,000, 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,

	2013	2012
Stoploss insurance premium expense	$ 571,189	$ 466,735
Stoploss recovery revenue	(258,832)	(28,850)
Net (Income) Expense	$ 312,357	$ 437,885

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 2013 and 2012, the Company had 34 and 30, respectively, eligible employees participating in the plan. For years 2013 and 2012, the employer contribution was 5% and 5%, respectively, of qualified compensation. The expenses charged to operations for December 31, 2013 and 2012, were $62,301 and $57,565, respectively.

Note 9 – Income Taxes

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

	2013	2012
Current tax expense		
Federal	377,873	$ 492,216
State	82,300	116,896
Total current tax expense	$ 460,173	$ 609,112
Deferred tax expense (benefit)		
Federal	$ 21,000	$ (9,112)
State	3,000	(1,609)
Total deferred tax expense	$ 24,000	$ (10,721)
Total provision for income taxes	$ 484,173	$ 598,391

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.

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

	2013	2012
Noncurrent deferred tax asset	47,000	36,000
Noncurrent deferred tax liability	(60,000)	(26,000)

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, 2013, the Company met the requirement, as calculated by DMAP, of $1,294,993.

Note 11 – Supplemental Cash Flow Disclosures

Premium tax payments made in 2013 and 2012 amounted to $298,821 and $361,629, respectively.

Cash paid for income taxes, (net of refunds) in 2013 and 2012 amounted to $480,600 and $586,720 respectively.

Cash paid for interest in 2013 and 2012 amounted to $376 and $805, 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 $245,400 in 2013 and $163,794 in 2012. 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:

	2013	2012
Claims	$ 10,628,523	$ 8,655,954
Capitation	899,028	388,271
Other provider payments	144,446	6,787
Total	$ 11,671,997	$ 9,051,012

Claims payable to SLMC were $1,255,352 for 2013 and $1,186,924 for 2012.

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, 2013 and 2012 are $ 166,820and $164,180, respectively. The lease terminated in November 2009 and turned into month-to-month rent through December 2013.

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 for 2013 and 2012 represented 95% of total revenues for 2013 and 99% for 2012.

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, 2013 and 2012, the Company had approximately $5,698,852 and $6,858,860 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 May 27, 2014, the date these financial statements were available to be issued.