Eastern Oregon Coordinated Care Organization, LLC

Financial Statements as of and for the
Year Ended December 31, 2014, and
Independent Auditors' Report

EASTERN OREGON COORDINATED CARE ORGANIZATION, LLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Eastern Oregon Coordinated Care Organization, LLC:

We have audited the accompanying financial statements of Eastern Oregon Coordinated Care Organization, LLC (the "Company"), which comprise the balance sheet as of December 31, 2014, and the related statements of revenues, expenses and net worth, and cash flows for the year 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 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Eastern Oregon Coordinated Care Organization, LLC as of December 31, 2014, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 21, 2015

EASTERN OREGON COORDINATED CARE ORGANIZATION, LLC

BALANCE SHEET
AS OF DECEMBER 31, 2014

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 34,840,608
Premiums receivable	1,174,377
Investment income receivable	55,336
Health care receivables	200,000
Reinsurance recoverable on paid losses	478,924
Other current assets	256,477
Total current assets	37,005,722
INVESTMENTS:	
Bonds	8,184,823
Common stocks	1,983,526
Restricted cash and restricted securities	7,221,505
Total investments	17,389,854
TOTAL	$ 54,395,576

LIABILITIES AND NET WORTH

CURRENT LIABILITIES:	
Claims payable	$ 17,896,200
Accrued medical incentive pool	4,993,189
Accounts payable	402,434
Amounts due to affiliates	492,044
Other current liabilities	4,562,502
Total current liabilities	28,346,369
Total liabilities	28,346,369
NET WORTH:	
Contributed capital	6,000,000
Surplus notes	1,000,000
Retained earnings	19,049,207
Total net worth	26,049,207
TOTAL	$ 54,395,576

See notes to financial statements.

EASTERN OREGON COORDINATED CARE ORGANIZATION, LLC

STATEMENT OF REVENUES, EXPENSES AND NET WORTH
FOR THE YEAR ENDED DECEMBER 31, 2014

REVENUES:	
Gross premiums	$ 223,357,101
Less:	
Reinsurance premiums paid	1,739,862
Hospital reimbursement adjustment (HRA) payments	18,479,710
Minimum medical loss ratio rebate	2,904,706
Health insurance provider fee	1,183,307
Special needs rate group	1,657,796
Net premiums	197,391,720
Incentive measure payments	1,961,432
Total operating revenues	199,353,152
EXPENSES:	
Physician/professional services	25,533,425
Hospital services:	
Inpatient	33,151,548
Outpatient	37,915,202
Emergency room	8,542,983
Pharmacy	22,682,728
Lab and X-ray	3,420,525
Vision	1,003,400
Chemical dependency	1,811,716
DME and supplies	1,778,911
Mental health	20,312,459
Dental	5,608,388
Subcapitation	4,067,138
Change in incurred but not reported claims and claims adjustment expenses	2,794,574
Medical and hospital expenses subtotal	168,622,997
Deductions:	
Reinsurance recoveries	1,551,068
Coordination of benefits	1,759,992
Total medical and hospital expenses less deductions	165,311,937
Administrative expenses:	
Compensation	8,845,502
Other administrative expenses	6,797,786
Total administrative expenses	15,643,288
Total operating expenses	180,955,225
NON-OPERATING REVENUES AND EXPENSES — Net investment income	129,117
NET INCOME	18,527,044
NET WORTH — Beginning of year	7,522,163
NET WORTH — End of year	$ 26,049,207

See notes to financial statements.

EASTERN OREGON COORDINATED CARE ORGANIZATION, LLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 18,527,044
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Premiums receivable	(597,003)
Health care receivables	(80,000)
Other current assets	(387,174)
Claims payable	8,575,350
Accrued medical incentive pool	4,993,189
Accounts payable	58,945
Due to affiliates	457,262
Other current liabilities	4,562,502
Net cash provided by operating activities	36,110,115
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from investments	2,229,568
Payments for investments	(10,452,934)
Net cash used in investing activities	(8,223,366)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on loans from affiliates	(465,802)
Net cash used in financing activities	(465,802)
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,420,947
CASH AND CASH EQUIVALENTS — Beginning of year	7,419,661
CASH AND CASH EQUIVALENTS — End of year	$ 34,840,608

See notes to financial statements.

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Eastern Oregon Coordinated Care Organization, LLC (the "Company") was formed in May 2012 by ODS Community Health, Inc. (ODSCH) and Greater Oregon Behavioral Health, Inc. (GOBHI) as a medical and mental health care services provider under the Oregon Health Authority (OHA). The Company is the designated coordinated care organization (CCO) to administer the Oregon Health Plan for the twelve counties in eastern Oregon. CCOs are accountable for care management and provision of integrated and coordinated health care for each of their members, including members who are dually eligible for Medicare and Medicaid services.

In 2012, ODSCH contributed $2,500,000 for a 50% ownership interest in the Company. GOBHI also contributed $2,500,000 for a 50% ownership interest in 2012. In May 2013, the Company paid $1,520,000 in dividends to ODSCH and GOBHI, and six hospitals and clinics contributed $2,520,000 for a combined 42% ownership interest, reducing ODSCH and GOBHI's ownership to 29% each.

ODSCH is a wholly owned subsidiary of Moda Health Plan, Inc. (MHP), which is wholly owned by Moda, Inc. (formerly Health Services Group, Inc.). Moda, Inc. (MI) is wholly owned by Oregon Dental Service (ODS).

Basis of Presentation — These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 these estimates and assumptions.

Cash and Cash Equivalents — Cash and cash equivalents include demand deposits and short-term investments with original maturities of three months or less.

Financial Instruments and Concentrations of Credit Risk — The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and marketable securities. Cash and cash equivalents are maintained with regional financial institutions and, at times, may exceed federally insured amounts. All investments are managed within established guidelines that limit the amounts that may be invested with one issuer.

Investments — Bonds, common stocks and restricted cash and restricted securities are classified as trading securities and, accordingly, stated at fair value, as determined by quoted market prices of the underlying investments. In cases where quoted market prices for securities are not available, fair value is based on estimates using present value or other generally accepted valuation techniques. Purchases and sales of securities are recorded on a trade-date basis. Realized and unrealized gains or losses are recognized in investment income, net of related expenses, in the statement of revenues, expenses and net worth, and are determined using the specific identification method.

Claims Payable — Claims payable includes those claims submitted but not yet paid, an estimate of the liability for claims incurred but not yet reported and an estimate for claims adjustment expenses. The estimated liability for claims incurred but not yet reported is based on claims payment history and other statistical information. These liabilities are continually monitored and reviewed by management. Claims adjustment expenses are reflected in administrative expenses and change in incurred but not reported claims and claims adjustment expenses. The amount recorded as a liability for claims adjustment expense was $852,200 at December 31, 2014.

Revenues — Premium revenues are recognized in the month in which the enrollees are entitled to medical and mental health care services.

Reinsurance — The Company protects itself from excessive losses by reinsuring certain levels of risk in various areas of exposure with reinsurers. Such insurance does not relieve the Company of the primary obligation to the policyholder, but since the reinsurance contract passes the economic risk to the reinsurer, appropriate reductions are made from premiums earned and losses incurred for the reinsurance ceded. The reinsurance reimbursements are offset against losses in the year incurred. Reinsurance recovered on paid losses was $1,551,068 for the year ended December 31, 2014, of which, $478,924 was still outstanding as of December 31, 2014.

Income Taxes — The Company is an Oregon limited liability company and is a disregarded entity for income tax purposes. Income tax liabilities and benefits are passed through to the Company's owners.

Restricted Reserve and Net Worth Requirements — Under the requirements of the contract with OHA, the Company is required to maintain restricted reserve funds held for the purpose of making payments to providers in the event of the Company's insolvency. The minimum restricted reserve is determined by calculating the average fee for service liability for capitated services based on either enrollment or historical expense data.

The Company also must maintain a level of net worth that will provide for minimum adequate operating capital based on a ratio of premium to surplus. The Company's restricted reserves and net worth exceed OHA contract requirements at December 31, 2014.

Fair Value of Financial Instruments — The recorded values of the Company's financial instruments, including investments and receivables, approximate the instruments' fair values because investments are recorded at fair value and receivables are recorded at amounts approximating fair value.

Medical Loss Ratios — The Company is required to maintain a minimum medical loss ratio (MLR) of at least 80% for expansion population membership, which is defined as members who are enrolled in the Affordable Care Act (ACA) Adults with Children and ACA Adults without Children rating categories, as required by the OHA subject to the approval of the Center for Medicare and Medicaid Services (CMS). The Company is required to rebate any dollar amount by which its performance falls short of this ratio. Estimated rebates were $2,904,706 for the year ended December 31, 2014.

CCO Risk Corridor — This program established by the OHA is a risk sharing mechanism in which OHA and the Company share in both higher and lower than adjusted expenses under the contract outside of the predetermined target amount, so that if the Company's adjusted expenses are outside the corridor in which the Company is responsible for all its adjusted expenses, the OHA contributes a portion toward additional adjusted expenses, or receives a portion of lower adjusted expenses. This program applies to Special Needs Rate Group (SNRG) members only. If the Company's adjusted expenses exceed the target amount, OHA will pay 50% of the adjusted expenses in excess of 105% of the target amount, 80% of adjusted expenses in excess of 110% of the target amount and 100% of adjusted expenses in excess of

120%, multiplied by the number of SNRG member months. If the Company's adjusted expenses are below the target amount, the Company will pay 50% of the difference between 95% of the target amount and the adjusted expenses, 80% of the difference between 90% of the target and the adjusted expenses and 100% of the difference between 80% of the targeted amount and the adjusted expenses, multiplied by the number of SNRG member months. The risk corridor payable related to SNRG members was $1,657,796 as of December 31, 2014.

Hospital Reimbursement Adjustment — Effective October 1, 2009, a hospital reimbursement adjustment (HRA) was added to the Medicaid capitation rates to bring the diagnosis-related group (DRG) hospital reimbursement from 68% of Medicare to 100% of Medicare reimbursement rates and compensate hospitals for the administrative expenses associated with the state hospital provider tax. These funds are included in the monthly capitation rate received from the OHA and are passed through to the DRG hospitals.

Legal Proceedings — The Company is involved in legal actions that arise in the ordinary course of business. Although the Company cannot predict the outcomes of legal actions, in management's opinion, the resolution of any currently pending or threatened actions will not have a material adverse effect on the financial position, results of operations or cash flows.

Subsequent Events — The Company evaluated subsequent events for recognition or disclosure through May 21, 2015, which represents the date the financial statements were issued.

2. INVESTMENTS

Bonds, common stocks and restricted cash and restricted securities as of December 31, 2014, consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,704,941	$ 24,016	$ (5,207)	$ 4,723,750
Corporate debt and misc. securities	4,437,855	38,995	(20,383)	4,456,467
Municipalities	5,375,505	12,065	(72,014)	5,315,556
Mortgage-backed securities	912,459	5,005	(6,909)	910,555
Common stocks	2,007,438	63,808	(87,720)	1,983,526
Total	$ 17,438,198	$ 143,889	$ (192,233)	$ 17,389,854

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,124,849	$ 1,103,391
Due in one year through five years	9,440,092	9,397,960
Due after five years through ten years	3,953,360	3,994,422
	14,518,301	14,495,773
Mortgage-backed securities	912,459	910,555
Common stocks	2,007,438	1,983,526
Total	$17,438,198	$17,389,854

Expected maturities could differ from contractual maturities because certain issuers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Proceeds from sales and maturities of investments in 2014 were $2,229,568. Gross gains of $0 and gross losses of $11,134 were realized. Such gains and losses are computed as sales proceeds less historical cost.

3. FAIR VALUE MEASUREMENT

Fair value guidance defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. Fair value guidance defines fair value as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value also establishes a hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level Input	Input Definition
Level 1	Observable inputs that reflect quoted prices for identical assets in active markets at the measurement date
Level 2	Observable inputs that reflect quoted prices for similar assets in active or inactive markets at the measurement date
Level 3	Unobservable inputs with little or no market activity for the asset at the measurement date

The fair value measurements by each of the levels as of December 31, 2014, for assets measured at fair value on a recurring basis, is summarized as follows:

		Fair Value Measurements Using		
	2014	**Level 1**	**Level 2**	**Level 3**
Trading securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,723,750	$ -	$ 4,723,750	$ -
Corporate debt and misc. securities	4,456,467	-	4,456,467	-
Municipalities	5,315,556	-	5,315,556	-
Mortgage-backed securities	910,555	-	910,555	-
Common stocks	1,983,526	1,983,526	-	-
Total	$17,389,854	$1,983,526	$15,406,328	$ -

Fair value of the fixed income securities is determined by the utilization of independent pricing services by the custodian. There were no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2014. There were no assets that were valued using significant unobservable inputs (Level 3) on a recurring basis as of December 31, 2014.

The fair value of the fixed income securities, including U.S. treasury securities and obligations of U.S. government corporations and agencies, and corporate debt securities, is determined by the utilization of independent pricing services by the custodian and the investment managers. If the Company does not agree with the estimated price, the identified price will be verified by an independent pricing source or through performing independent valuations of inputs and assumptions similar to those used by the pricing service in order to determine prices represent a reasonable estimate of fair value. The Company did not make any significant adjustments as of December 31, 2014 or 2013.

4. CLAIMS PAYABLE

Activity in claims payable is summarized as follows:

Balance — January 1	$ 9,320,850
Incurred related to:	
Current year	166,210,334
Prior years	(898,397)
Total incurred	165,311,937
Paid related to:	
Current year	148,314,134
Prior years	8,422,453
Total paid	156,736,587
Balance — December 31	$ 17,896,200

The provision decreased by $898,397 in 2014 (net of reinsurance recoveries of $1,551,068) as a result of actual claims of prior years' experience differing from amounts provided for at the beginning of the year.

5. TRANSACTIONS WITH AFFILIATES

In the normal course of operations, the Company enters into transactions with its affiliates. Total billings to the Company from affiliates for certain administrative services including accounting, data processing, facilities, purchasing, legal and senior executive management were $14,393,402 for the year ended December 31, 2014. Amounts due to affiliates at December 31, 2014, included $34,244 and $457,800, respectively, due to MHP and ODSCH, respectively.

6. SURPLUS NOTES

As of December 31, 2014, the surplus notes outstanding were as follows:

Date Issued	Interest Rate	Par Value	Carrying Value	Interest and/or Principal Paid Current Year	Total Interest and/or Principal Paid	Unapproved Interest and/or Principal	Maturity Date
May 13, 2013	6.00 %	$500,000	$500,000	$30,000	$49,000	$ -	May 12, 2015
May 13, 2013	6.00	500,000	500,000	30,000	49,000	-	May 12, 2015

On May 13, 2013, the Company issued surplus notes to ODSCH for $500,000 cash and GOBHI for $500,000 cash at an interest rate of 6%, which mature on May 12, 2015.

The above surplus notes have the following repayment conditions and restrictions: Each payment of interest on and principal of the surplus notes may be made only with prior approval of the Chief Financial Officer of the Oregon Health Authority and only to the extent the Company's minimum net worth and restricted reserve requirements will remain fully satisfied after making such payments. In the event of the liquidation or dissolution of the Company, payment of the principal balance and all accrued interest is subordinated to the claims of: 1) policyholders, 2) beneficiaries and other claimants and 3) the debts and liabilities owed to all creditors of the Company other than holders of other surplus notes.

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