FAMILYCARE, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2014 and 2013
With Independent Auditor's Report

PERKINS & CO

FAMILYCARE, INC. AND SUBSIDIARIES
YEARS ENDED DECEMBER 31, 2014 AND 2013
CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
FamilyCare, Inc.

We have audited the accompanying consolidated financial statements of FamilyCare, Inc. and Subsidiaries (an Oregon nonprofit corporation) which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 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 of 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 FamilyCare, Inc. and Subsidiaries 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.

Perkins & Company, P.C.

May 18, 2015

FAMILYCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 103,699,433	$ 15,399,663
Restricted cash and cash equivalents	520,531	2,790,319
Short-term investments	870,315	1,232,081
Restricted short-term investments	3,543,646	1,495,249
Premiums receivable from DMAP	3,949,410	4,182,513
Reinsurance receivables	687,801	375,321
Receivable from CMS	2,027,858	2,919,138
Grant receivable	-	893,111
Other current assets, net	5,126,996	1,846,268
Total current assets	120,425,990	31,133,663
LONG-TERM INVESTMENTS	98,974,307	39,916,942
RESTRICTED LONG-TERM INVESTMENTS	8,439,925	2,320,934
PROPERTY AND EQUIPMENT	3,810,008	1,812,253
OTHER ASSETS	460,354	528,415
Total assets	$ 232,110,584	$ 75,712,207

FAMILYCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
DECEMBER 31, 2014 AND 2013

	2014	2013
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Checks in excess of deposits	-	$ 624,586
Claims payable and unpaid claims adjudication expenses	40,722,272	23,704,845
Savings pool and quality bonus payable	7,783,701	3,203,218
Other policy liabilities	53,697,059	2,498,348
Accounts payable	2,424,077	2,178,610
Accrued liabilities	2,571,095	3,320,176
Current portion of capital lease obligation	109,914	133,247
Total current liabilities	107,308,118	35,663,030
CONTRIBUTIONS TO OTHERS, LESS CURRENT PORTION	391,899	766,973
CAPITAL LEASE OBLIGATION, LESS CURRENT PORTION	499,806	266,849
Total liabilities	108,199,823	36,696,852
COMMITMENTS AND CONTINGENCIES (NOTES 8, 9 AND 12)		
NET ASSETS:		
Unrestricted net assets:		
Designated reserve related to DMAP contract	14,174,213	6,026,244
Designated reserve related to the Insurance Division	2,500,000	2,500,000
Designated for OPSO	100,000	100,000
Undesignated	107,121,553	28,786,564
Total unrestricted net assets	123,895,766	37,412,808
Temporarily restricted net assets	14,995	1,602,547
Total net assets	123,910,761	39,015,355
Total liabilities and net assets	$ 232,110,584	$ 75,712,207

FAMILYCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
UNRESTRICTED NET ASSETS		
REVENUE		
Medicaid premiums, net	$ 407,886,177	$ 165,378,652
Medicare premiums, net	32,110,116	31,142,604
Other revenue	642,077	132,077
Total revenue	440,638,370	196,653,333
EXPENSES		
Medical and hospital	327,084,477	163,736,579
Administrative	32,412,833	21,577,970
Total expenses	359,497,310	185,314,549
NET ASSETS RELEASED FROM RESTRICTION	1,662,552	277,252
CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	82,803,612	11,616,036
OTHER INCOME (EXPENSE)		
Interest expense	(20,731)	(24,019)
Investment income	3,700,077	877,467
	3,679,346	853,448
INCREASE IN UNRESTRICTED NET ASSETS	86,482,958	12,469,484
TEMPORARILY RESTRICTED NET ASSETS		
Grant revenue	75,000	1,879,799
Net assets released from restrictions	(1,662,552)	(277,252)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(1,587,552)	1,602,547
INCREASE IN TOTAL NET ASSETS	$ 84,895,406	$ 14,072,031

FAMILYCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Designated Reserve Related to OHA Contract	Designated Reserve Related to the Insurance Division	Designated for OPSO	Undesignated	Total Unrestricted Net Assets	Temporarily Restricted	Total Net Assets
BALANCE AT JANUARY 1, 2013	$ 4,797,272	$ 2,500,000	$ 100,000	$ 17,546,052	$ 24,943,324	$ -	$ 24,943,324
Increase in unrestricted net assets	-	-	-	12,469,484	12,469,484	1,602,547	14,072,031
Transfers	1,228,972	-	-	(1,228,972)	-	-	-
BALANCE AT DECEMBER 31, 2013	6,026,244	2,500,000	100,000	28,786,564	37,412,808	1,602,547	39,015,355
Increase in net assets	-	-	-	86,482,958	86,482,958	(1,587,552)	84,895,406
Transfers	8,147,969	-	-	(8,147,969)	-	-	-
BALANCE AT DECEMBER 31, 2014	$ 14,174,213	$ 2,500,000	$ 100,000	$ 107,121,553	$ 123,895,766	$ 14,995	$ 123,910,761

FAMILYCARE, 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	$ 84,895,406	$ 14,072,031
Adjustments to reconcile increase in total net assets to net cash provided by operating activities:		
Depreciation and amortization	977,055	811,011
Net realized and unrealized gain on investments	(2,031,260)	(219,799)
Discount of contributions to others	36,733	52,247
Loss on disposal of property and equipment	9,391	138,830
Changes in certain operating assets and liabilities:		
Restricted cash and cash equivalents	2,269,788	(2,142,249)
Premiums receivable from DMAP	233,103	413,992
Reinsurance receivables	(312,480)	(346,955)
Receivable from CMS	891,280	(2,606,157)
Grant receivable	893,111	(893,111)
Other current and long-term assets, net	(3,212,667)	(10,915)
Checks in excess of deposits	(624,586)	(153,259)
Claims payable and unpaid claims adjudication expenses	17,017,427	(317,516)
Savings pool and quality bonus payable	4,580,483	1,379,006
Other policy liabilities	51,198,711	1,009,213
Accounts payable	245,467	740,010
Accrued liabilities	(760,888)	1,522,166
Provider taxes payable	-	(423,715)
Contributions to others	(400,000)	(400,000)
Net cash provided by operating activities	155,906,074	12,624,830
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	13,517,010	23,576,139
Proceeds from sale of restricted investments	1,484,000	3,345,000
Purchases of investments	(69,834,129)	(35,902,676)
Purchases of restricted investments	(9,998,608)	(1,281,378)
Purchases of property and equipment	(2,635,730)	(910,684)
Net cash used in investing activities	(67,467,457)	(11,173,599)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of capital lease obligation	(138,847)	(112,700)
Net cash used in financing activities	(138,847)	(112,700)
NET INCREASE IN CASH AND CASH EQUIVALENTS	88,299,770	1,338,531
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,399,663	14,061,132
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 103,699,433	$ 15,399,663

FAMILYCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 20,731	$ 24,019
Noncash investing and financing activities:		
Equipment financed by capital lease	$ 621,679	$ 48,313
Forgiveness of capital lease obligation	$ (273,308)	$ -

NOTE 1 - ORGANIZATION

Organization and Basis of Presentation - The accompanying consolidated financial statements include the accounts and activities of FamilyCare, Inc. (FamilyCare) and its subsidiaries, FamilyCare Health Plans, Inc. (Health Plans) and the Heatherington Foundation for Innovation and Education in Healthcare (the Foundation) (collectively, the Company). All significant intercompany balances and activities have been eliminated in consolidation.

Description of Business - The Company provides cooperative and comprehensive healthcare programs to the communities it serves. The Company contracts with individual primary care providers and hospitals to provide medical services to its members.

In 2012, FamilyCare was under contract with the Oregon Health Authority (OHA) Division of Medical Assistance Programs (DMAP) and with the OHA Addictions and Mental Health Division (AMH) as a fully capitated health plan for Medicaid benefits. On August 1, 2012, FamilyCare converted its fully capitated health plan contracts to a single Coordinated Care Organization contract, providing physical, mental and dental coverage for Medicaid benefits in the Oregon counties of Multnomah, Clackamas, Washington and Marion (in part). FamilyCare's present service contract with OHA expires on December 31, 2018.

Health Plans also provides Medicare and Medicare Part D insurance coverage. Health Plans is certified by the Centers for Medicare and Medicaid Services (CMS) to provide Medicare insurance coverage in the Oregon counties of Multnomah, Clackamas, Umatilla, Washington, Clatsop and Morrow. Effective January 1, 2015, the contract with CMS has been renewed for the year ending December 31, 2015. In conjunction with Health Plans entering into the contracts with CMS, Health Plans is required to comply with certain additional regulatory requirements (see Note 8).

The Foundation was established in December 2014 through a contribution from FamilyCare as an organization to support innovation for improvements in the healthcare community and to fund education in healthcare. During 2014, no grants were made from the Foundation. The Board of Directors of the Foundation is a subset of that of FamilyCare's, including the president. All of the 2014 revenue of the Foundation was provided by FamilyCare.

Basis of Accounting - The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) using the accrual method of accounting, which recognizes revenue and income when earned and expenses when incurred.

Cash and Cash Equivalents - The Company considers all cash on hand, amounts deposited with banks, money market instruments, and short-term, highly liquid investments with maturities at acquisition of three months or less to be cash and cash equivalents.

Restricted Cash, Cash Equivalents and Investments - FamilyCare's restricted cash, cash equivalents and investment requirements are governed by DMAP and the State of Oregon Department of Consumer and Business Services, Insurance Division (the Insurance Division). In addition, FamilyCare investments in the amount of $1,200,000 collateralize a standby letter of credit issued to secure the Company's performance under its facility lease, and are restricted as to use. Health Plans' restricted cash, cash equivalents and investment requirements are governed by the Insurance Division. Restricted cash, cash equivalents and investments consist of cash, money market funds, certificates of deposit and U.S. Treasury securities.

Investments - Investments in all equity and debt securities are measured at fair value in the accompanying consolidated statements of financial position. Investments with remaining maturities of one year or less at the consolidated statement of financial position date and that do not otherwise meet the definition of a cash equivalent are reported as short-term investments in the consolidated statements of financial position. Investments with remaining maturities of greater than one year at the consolidated statement of financial position date are reported as long-term investments in the consolidated statements of financial position. Realized and unrealized gains and losses and interest and dividend income are included in investment income in the accompanying consolidated statements of activities. Realized gains and losses on sales of investments are recognized on a trade-date basis and determined using the specific-identification method.

Concentrations of Credit Risk - The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts and other receivables.

Due to the Company's normal operating cash flow requirements, the Company typically has cash and short-term investments that exceed the Federal Deposit Insurance Corporation (FDIC) coverage of $250,000. Cash and short-term investments other than non-interest bearing cash balances may not be insured. Management believes that its credit risk with respect to cash and short-term investments is minimal due to the relative financial strength of the financial institutions which maintain the Company's bank balances and the short-term nature of its other short-term investments.

Credit risk related to investments varies depending on the nature of the investments. Management believes that its credit risk related to debt securities is limited due to the financial strength of the U.S. Government and supporting corporations securing such investments. Investment risk related to equity securities can vary depending on a variety of economic factors affecting the companies issuing such securities. Management believes that its investment risk related to equity securities is limited due to the diversity of such investments. Due to changes in economic conditions, interest rates, and the stock market in general, the fair value of the Company's debt and equity securities can be volatile. Consequently, the fair value of such investments can significantly change in the near term as a result of such volatility.

Credit risk related to accounts and other receivables, which total $10,974,625 and $10,009,340 at December 31, 2014 and 2013, respectively, is limited due to the nature of significant receivables. Premiums receivable from DMAP represented 36% and 42% of accounts and other receivables at December 31, 2014 and 2013, respectively. Pharmacy rebates receivable represented 11% and 7% of accounts and other receivables at December 31, 2014 and 2013, respectively. Amounts receivable from CMS represented 18% and 29% of accounts and other receivables at December 31, 2014 and 2013, respectively.

During 2014, the Company generated 7% and 93% of its total revenues from Medicare and OHA government contracts, respectively. During 2013, the Company generated 16% and 84% of its total revenues from Medicare and OHA government contracts, respectively. If these contracts are not renewed, the Company's future results of operations and financial position could be materially affected.

Premiums Receivable from DMAP - Premiums receivable from DMAP consist of uncollateralized amounts due from DMAP for maternity services performed (which are reimbursed at a fixed fee per-delivery) and for which reimbursement had not yet been received from DMAP as of December 31, 2014 and 2013. At December 31, 2014 and 2013, the balance also includes approximately $1,250,000 and $2,100,000, respectively, for amounts due from DMAP related to capitation premiums. The Company believes that its credit risk related to the premiums receivable from DMAP is minimal due to the nature of the receivable.

Reinsurance - In the normal course of business, and as required by DMAP, the Company seeks to limit its loss on any single insured risk and to recover a portion of benefits paid by ceding reinsurance to its reinsurers, Physicians Insurance and PartnerRe America Insurance Company (collectively, the reinsurers), under excess coverage agreements. The Company cedes reinsurance premiums to the reinsurers on a per-member per-month basis. In return, the reinsurers generally assume 95% to 100% of the risk in excess of $250,000 per-member per-year for hospital and physician services. The reinsurers have no limit for claims of which they assume risk for on per-member per-policy year for Medicaid and Medicare members. Reinsurance agreements do not relieve the Company from its primary obligation to its members.

Amounts recoverable under reinsurance agreements are estimated in a manner consistent with the claim liability associated with each reinsurance policy. Reinsurance premiums are netted against premiums earned, and reinsurance recoveries are offset against claims incurred. Reinsurance premiums were approximately $4,340,000 and $2,605,000 for the years ended December 31, 2014 and 2013, respectively, and recoveries net of write-offs were approximately $871,000 and $1,126,000 for the years ended December 31, 2014 and 2013, respectively. Amounts receivable under reinsurance policies were $687,801 and $375,321 at December 31, 2014 and 2013, respectively. The Company believes that its credit risk related to estimated amounts receivable under reinsurance policies is minimal due to the financial strength of the reinsurers.

Receivable from CMS - Amounts receivable from CMS consist primarily of Part D low-income cost sharing and reinsurance subsidies based on higher than estimated Part D utilization and expected risk sharing adjustments based on the health condition of members.

Property and Equipment - Property and equipment acquisitions are recorded at cost and are depreciated over the estimated useful lives of the related assets, which is generally three to 10 years, using the straight-line method. Expenditures for additions, major replacements, and improvements are capitalized. Routine maintenance and repairs are charged to expense as incurred.

Property and equipment financed under capital leases are recorded at the present value of future minimum lease payments and amortized using the straight-line method over the shorter of their related lease terms or their estimated useful lives.

The Company periodically reviews the carrying value of its property and equipment to determine if impairment exists. If facts or circumstances support the possibility of impairment, the Company will prepare a projection of the undiscounted future operating cash flows. In cases when the Company does not expect to recover its carrying value, an impairment loss will be recognized.

Claims Payable and Unpaid Claims Adjudication Expenses - Claims incurred represent capitation and noncapitation payments to physicians, hospitals, and other healthcare providers for healthcare services rendered.

The liability for claims payable includes payments to be made on claims reported as of year-end and a provision for estimated incurred but not reported (IBNR) claims. IBNR claims represent the estimated liability for members who have received service from healthcare providers, but for which the invoices for services rendered have not yet been received as of year-end. Such invoices are generally paid within one year of the consolidated statement of financial position date and, therefore, the obligation is classified as a current liability in the consolidated statements of financial position. IBNR claims are actuarially determined based on historical claims payment experience and other statistics related to the Company's current business nature and volume.

The Company believes that its claims payable is adequate to satisfy its ultimate claims liabilities; however, the IBNR claims liability included in the accompanying consolidated statements of financial position may vary significantly from actual claims amounts, either negatively or positively, and as such adjustments are deemed necessary, they are included in current activities. The establishment of a liability for estimated IBNR claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could negatively or positively impact the Company's activities in future periods.

The liability for unpaid claims adjudication expenses is accrued based on management's estimate of expenses necessary to process the claims payable described above.

Savings Pool and Quality Bonus Payable - FamilyCare contracts directly with physicians, hospitals, and other healthcare providers to provide healthcare services to members. Under the terms of the Company's contracts with certain capitated providers, FamilyCare retains a calculated percentage of fees in a savings pool reserve. Following the end of the Company's fiscal year, FamilyCare distributes funds from the savings pool reserve to qualifying providers in accordance with the terms of their provider contracts. Payments from the savings pool reserve are limited by payment of healthcare costs to providers and hospitals in excess of agreed-upon medical loss ratios, as stipulated in the contracts. Payments from the savings pool reserve are also limited by certain CMS and DMAP regulations.

Certain provider contracts include a quality bonus incentive program, which allows the contract provider to receive incentive payments that are based on various quality measures outlined in those contracts. Data related to quality measure performance is supplied by the provider group, which is evaluated by the Company to determine the final payment related to the contract year.

Net Assets - The Company is required to report its consolidated financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In accordance with the Company's OHA contracts, the Company has designated certain amounts consisting of a primary reserve of $250,000 for each OHA contract, and an additional reserve calculated based on a percentage of the average fee for services and expenses during the period of the OHA contracts. Also, the Company has designated a reserve in accordance with the requirements of the Insurance Division. In addition, the Company has designated certain amounts for future contributions to the Osteopathic Physicians and Surgeons of Oregon, Inc. (OPSO). The Company may redesignate these net assets at its discretion. During 2013, the Company added temporarily restricted net assets related to funds received from the State of Oregon through the OHA. These funds were received from a grant award and were paid to the Company in installments through December 2014. The funds are released from restriction as the Company incurs qualifying expenses.

Loss Contracts - The Company monitors its provider contracts and its contracts with OHA and CMS for the provision of medical care and recognizes losses on the contracts when it is probable that expected future healthcare and maintenance costs will exceed anticipated future premiums. The estimation of future healthcare medical costs includes all costs related to the provision of healthcare to members covered by the contracts. As of December 31, 2014, management does not anticipate that future costs will exceed premiums related to such contracts.

Revenue Recognition - Premiums from DMAP for maternity services are recognized as revenue during the period that such services are provided, whereas all other premiums from DMAP and all premiums from Medicare are recognized as revenue during the period in which the Company is obligated to provide healthcare services to its members.

Other revenue primarily consists of amounts received from the State of Oregon relating to the Adult Mental Health Initiative designed to promote more effective utilization of facility based treatment centers.

Grant revenue is recorded when the conditions of the grant have been met or the terms of the grant are unconditional as to receipt of the award. Restricted revenues are reported as increases in temporarily restricted net assets depending on the nature of the restriction. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction, when the terms of restriction are met.

Advertising - The Company expenses advertising costs as incurred. Advertising expense amounted to approximately $936,770 and $544,000 in 2014 and 2013, respectively.

Income Taxes - FamilyCare and Health Plans are tax-exempt organizations pursuant to Internal Revenue Code (IRC) Section 501(c)(4). The Foundation is a tax-exempt organization pursuant to IRC Section 501(c)(3). Only the Company's unrelated business income is subject to federal or state income taxes. It is management's belief that none of the Company's activities have generated material unrelated business income; therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

Generally, the Company is subject to examination by federal, state and local income tax authorities for three years from the filing of a tax return. With few exceptions, the Company is no longer subject to such examinations for years ended before December 31, 2011.

Subsequent Events - The Company has performed an evaluation of subsequent events in accordance with ASC 855, *Subsequent Events*, through May 18, 2015, which is the date these consolidated financial statements were available to be issued.

Estimates - The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue, income, and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates and assumptions are used to calculate certain receivables, claims payable and unpaid claims adjudication expenses and the savings pool and quality bonus payables. If future experience differs from these estimates and assumptions, the financial statements could be materially affected. Changes in such estimates are reflected in the consolidated financial statements in the year in which such estimates are updated.

Recently Issued Accounting Standards - In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-9, *Revenue from Contracts with Customers*. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will be effective for fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years beginning after December 15, 2016, in certain instances. The Company has not yet evaluated the impact of adopting this standard

NOTE 2 - INVESTMENTS AND RESTRICTED INVESTMENTS

Investments and restricted investments consisted of the following at December 31:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Common stocks	$ 27,297,100	$ 30,429,118	$ 11,981,155	$ 13,266,255
Corporate bonds	19,487,478	19,305,036	8,065,316	7,881,119
Mutual funds	10,320,805	9,569,625	3,804,278	3,584,131
Municipal bonds	1,215,463	1,209,941	785,976	795,231
Agency bonds	8,939,032	8,729,526	5,094,005	4,987,227
U.S. Treasury securities	43,914,315	42,584,947	15,072,316	14,451,243
	$ 111,174,193	$111,828,193	$ 44,803,046	44,965,206
Less short-term investments		870,315		1,232,081
Less short-term restricted investments		3,543,646		1,495,249
Less long-term restricted investments		8,439,925		2,320,934
Long-term investments		$ 98,974,307		$ 39,916,942

Investment income consisted of the following for the years ended December 31:

	2014	2013
Interest and dividend income	$ 1,668,817	$ 657,668
Change in net unrealized gain (loss) on investments	1,605,342	(427,779)
Net realized gain on sales of investments	425,918	647,578
	$ 3,700,077	$ 877,467

NOTE 3 - FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1. For example, quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include investments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

Fair values of assets measured on a recurring basis were as follows:

	Fair Value as of December 31, 2014			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents:				
Money Market Mutual Funds	$ 99,407,450	$ 99,407,450	$ -	$ -
Restricted cash equivalents and investments:				
Money Market Mutual Funds	520,531	520,531	-	-
US Treasury Securities	11,983,573	11,983,573	-	-
	12,504,104	12,504,104		
Investments:				
Corporate Bonds	19,305,036	-	19,305,306	-
Municipal Bonds	1,209,941	1,209,941	-	-
Agency Bonds	8,729,526	8,729,526	-	-
Mutual Funds – Fixed Income	9,569,625	9,569,625	-	-
US Treasury Securities	30,601,375	30,601,375	-	-
Common Stocks:				
Mega Cap	3,336,234	3,336,234	-	-
Large Cap	19,846,544	19,846,544	-	-
Mid Cap	5,695,491	5,695,491	-	-
Small Cap	1,518,884	1,518,884	-	-
Micro Cap	31,966	31,966	-	-
	99,844,622	80,539,586	19,305,306	-
Total at fair value	$211,756,176	$192,451,140	$ 19,305,306	$ -

	Fair Value as of December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents:				
Money Market Mutual Funds	$ 8,273,522	$ 8,273,522	$ -	$ -
Restricted cash equivalents and investments:				
Money Market Mutual Funds	2,790,319	2,790,319	-	-
US Treasury Securities	3,816,183	3,816,183	-	-
	6,606,502	6,606,502	-	-
Investments:				
Corporate Bonds	7,881,119	-	7,881,119	-
Municipal Bonds	765,231	765,231	-	-
Agency Bonds	4,987,227	4,987,227	-	-
Mutual Funds – Fixed Income	3,584,131	3,584,131	-	-
US Treasury Securities	10,635,060	10,635,060	-	-
Common Stocks:				
Mega Cap	1,744,729	1,744,729	-	-
Large Cap	8,716,591	8,716,591	-	-
Mid Cap	2,039,443	2,039,443	-	-
Small Cap	670,869	670,869	-	-
Micro Cap	124,623	124,623	-	-
	41,149,023	33,267,904	7,881,119	-
Total at fair value	$ 56,029,047	$ 48,147,928	$ 7,881,119	$ -

The Company's level 2 investments in corporate bonds are valued using observable market inputs obtained from pricing services. The pricing services prepare estimates of fair value measurements based on either trades executed for similar bonds or on implied yield curves using observable inputs.

The availability of observable inputs can vary from instrument to instrument and is affected by a variety of factors including the availability of published dealer quotations and interest rates on similar assets. The level of a fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement in its entirety. The categorization of a fair value measurement within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Company's perceived risk of that instrument.

NOTE 4 - OTHER ASSETS

Other assets consist of the following at December 31:

	2014	2013
Reinsurance experience refund receivable	$ 668,476	$ 180,093
Prepaid expenses	1,092,179	514,639
Pharmacy rebates receivable	1,492,510	849,989
Cash surrender value of life insurance	184,132	175,180
Cash overpayments receivable	28	1,611
Accrued interest receivable	432,035	157,478
Accounts receivable, net	38,899	49,162
Other receivables	1,679,091	446,531
	5,587,350	2,374,683
Less other current assets	5,126,996	1,846,268
Other assets	$ 460,354	$ 528,415

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2014	2013
Computer software asset	$ 688,099	$ 535,940
Computer equipment	2,105,072	1,457,113
Office furniture and equipment	1,588,044	992,747
Leasehold improvements	806,769	68,312
Equipment under capital leases	621,679	669,123
	5,809,663	3,723,235
Less accumulated depreciation and amortization	2,169,497	1,948,995
	3,640,166	1,774,240
Construction in progress	169,842	38,013
	$ 3,810,008	$ 1,812,253

Depreciation and amortization expense amounted to $977,055 and $811,011 in 2014 and 2013, respectively. Construction in progress as of December 31, 2014 consisted of software and improvements to the leased space. Construction in progress as of December 31, 2013 consisted of costs incurred to implement a disaster recovery program and software upgrades and enhancements.

NOTE 6 - CLAIMS PAYABLE, UNPAID CLAIMS ADJUDICATION EXPENSES, AND SAVINGS POOL PAYABLE

Claims payable at December 31, 2014 and 2013 includes estimates for IBNR claims based on actuarial analyses prepared by independent actuarial firms. Activity related to claims payable, unpaid claims adjudication expenses, and savings pool payable liabilities for the years ended December 31 was as follows:

	2014	2013
Balance at beginning of year	$ 26,908,063	$ 25,846,573
Claims incurred related to:		
Current year	330,186,577	164,247,780
Prior year	(3,102,100)	(511,201)
Total incurred	327,084,477	163,736,579
Claims paid related to:		
Current year	286,382,653	138,763,035
Prior year	19,103,914	23,912,054
Total paid	305,486,567	162,675,089
Balance at end of year	$ 48,505,973	$ 26,908,063

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled.

Amounts included in the consolidated statements of financial position at December 31 were as follows:

	2014	2013
Reported on the consolidated statements of financial position as:		
Claims payable and unpaid claims adjudication expenses	$ 40,722,272	$ 23,704,845
Savings pool and quality bonus payable	7,783,701	3,203,218
	$ 48,505,973	$ 26,908,063

NOTE 7 - OTHER POLICY LIABILITIES

The contract with the OHA provides for a risk sharing mechanism in which the OHA and the Company share in both lower and higher expected adjusted expenses under the contract outside of a predetermined target amount. The target amount is based on certain members classified in special needs risk groups. As of December 31, 2014 and 2013, the Company has accrued $4,013,243 and $1,960,298, respectively, related to this obligation.

The Company's contract with the OHA also provides for a provision in which the Company is required to maintain a Medical Loss Ratio (MLR) of at least 80% of a defined population of policy holders and requires the Company to refund any amounts by which it does not maintain that MLR. The initial reporting period for this provision is July 1, 2014, through December 31, 2014; subsequent reporting periods are for each calendar year thereafter. As of December 31, 2014, the Company has accrued approximately $49,300,000 related to this obligation.

NOTE 8 - LEASE COMMITMENTS

The Company leases office equipment under various lease arrangements classified as capital leases, which expire on various dates through December 2016. The total cost of the equipment under the arrangements was $621,679 and $669,123 at December 31, 2014 and 2013, respectively. The related accumulated amortization at December 31, 2014 and 2013, was $10,361 and $313,619, respectively. Amortization of assets held under capital leases is included within administrative expenses in the accompanying consolidated statements of activities.

The Company also leases equipment and office facilities under noncancelable operating lease agreements which expire on various dates through September 2024. The lease agreements for office facilities include escalation provisions and generally, the Company is required to pay its proportionate share of certain operating expenses and property taxes. During 2013, the Company entered into an amended lease agreement to relocate and expand its primary office, which occurred in 2014. Total rent expense under all these agreements was approximately $1,239,000 and $666,000 for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, the future minimum lease payments owed under such noncancelable lease agreements are as follows:

Years ending December 31:

	Capital Lease Obligation	Operating Leases
2015	$ 143,508	$ 1,559,660
2016	143,508	1,599,872
2017	143,508	1,645,674
2018	143,508	1,686,580
2019	131,549	1,675,564
Thereafter	-	8,444,131
Total minimum lease payments	705,581	$ 16,611,481
Less amount representing interest	95,861	
Present value of net minimum lease payments	$ 609,720	

NOTE 9 - REGULATION

Health Plans is subject to various additional regulatory requirements as administered by the Insurance Division. Failure to meet minimum premium-to-surplus requirements as prescribed by the Insurance Division can initiate certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. As of December 31, 2014 and 2013, management believes that Health Plans was in compliance with the Insurance Division's requirements.

Health Plans is licensed with the Insurance Division to operate as a commercial health insurance plan in the State of Oregon and is required to file audited statutory basis financial statements with the Insurance Division within five months of each calendar year-end. These statutory basis financial statements are prepared in conformity with accounting practices prescribed or permitted by the Insurance Division. Prescribed statutory accounting practices are those practices mandated by the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations, and general administrative rules. In contrast, permitted statutory accounting practices are those practices for which a company has applied for and received specific permission from its state of domicile.

The NAIC requires insurance companies to calculate risk-based capital (RBC) ratios, which serve as a benchmark for the regulation of insurance companies' solvency by state insurance regulators. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on a perceived degree of risk. Regulatory compliance is determined by a ratio of the enterprise's regulatory total adjusted capital to its authorized control level RBC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which require specified corrective action, or may cause state regulators to take certain actions.

NOTE 10 - RETIREMENT PLAN

The Company has a safe harbor 401(k) retirement plan (the Retirement Plan) which covers substantially all employees of the Company and its subsidiaries who are at least 21 years of age and have completed six months of service.

The Retirement Plan requires the Company (including its subsidiaries) to make a contribution equal to 3% of each employee’s compensation. This contribution is immediately 100% vested. The Company may also make additional discretionary contributions.

Total expense related to the retirement and profit sharing plans was approximately $328,000 and $279,000 for the years ended December 31, 2014 and 2013, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

During 2014 and 2013, the Company transacted business with professional service firms whose owners are also members of the Company’s Board of Directors. Amounts paid to these firms were approximately $188,000 and $213,000 during the years ended December 31, 2014 and 2013, respectively.

The Company holds an insurance policy on the life of a key officer of the Company. The cash surrender value of the life insurance policy is $184,132 and $175,180 at December 31, 2014 and 2013, respectively, and is included in other assets in the consolidated financial statements.

During 2014 and 2013, the Company transacted business with providers who are also members of the Company's Board of Directors. Amounts paid to these providers were approximately $7,547,000 and $3,463,000 during the years ended December 31, 2014 and 2013, respectively.

NOTE 12 - CONTINGENCIES

In the normal course of business, the Company is party to various legal proceedings, many of which involve claims related to healthcare coverage. The Company, like health maintenance organizations and other health insurers, generally excludes the coverage of certain healthcare services under its contracts. The Company, in the ordinary course of business, is subject to the claims of its enrollees arising out of decisions to restrict treatment or reimbursement for certain services. The loss of even one such claim, if it results in a significant punitive damage award, could have a material adverse effect on the Company. In addition, the risk of potential liability under punitive damage theories may significantly increase the difficulty of obtaining reasonable settlements of coverage claims. However, the financial and operating impact that such evolving theories of recovery will have on the managed care industry and the Company is presently unknown.

NOTE 13 - FUNCTIONAL EXPENSES

Expenses by major functional classification consist of the following at December 31:

	2014	2013
Medical and hospital:		
Inpatient hospital	$ 78,372,178	$ 47,959,495
Physicians services	68,847,369	39,613,371
Emergency room and out-of-area services	23,019,776	11,812,349
Other medical and hospital expenses	156,845,154	64,351,364
Total medical and hospital	327,084,477	163,736,579
Administrative:		
Compensation and benefits	$ 14,276,431	$ 9,109,314
Professional services	4,183,594	3,465,412
Occupancy, depreciation and amortization	2,113,156	1,446,781
Repairs and maintenance	860,066	1,064,798
Contributions to others	271,715	124,562
Other administrative expenses	10,707,871	6,367,103
Total administrative	32,412,833	21,577,970
Total expenses	$359,497,310	$185,314,549

NOTE 14 - CONTRIBUTIONS TO OTHERS

The Company makes donations for research, education, and other projects in the field of workforce development and utilization. The minimum amount for which the Company is obligated is recorded upon the Board of Directors' approval. Donations payable beyond one year are reported at the estimated present value of future cash flows. At December 31, 2014 and 2013, donations payable are $766,973 and $1,130,240, respectively, of which $375,074 and $363,267, respectively, is classified as current and included in accrued liabilities in the consolidated financial statements.

NOTE 15 - AFFORDABLE CARE ACT

The Company is exempt from the annual fee under Section 9010(c)(2) of the Federal Affordable Care Act (ACA) due to its nonprofit corporation status.

Additionally, the Company recorded zero balances for the risk corridors program of the ACA due to a lack of sufficient data to estimate the recoverable amounts as of December 31, 2014.

SUPPLEMENTARY INFORMATION

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REPORT OF INDEPENDENT AUDITOR'S ON CONSOLIDATING INFORMATION

To the Board of Directors of
FamilyCare, Inc.

We have audited the consolidated financial statements of FamilyCare, Inc. and Subsidiaries (the Company) as of and for the years ended December 31, 2014 and 2013, and our report thereon dated May 18, 2015, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis of the 2014 consolidated financial statements, rather than to present the financial position and change in unrestricted net assets of the individual companies, and are 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 2014 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2014 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 2014 consolidated financial statements or to the 2014 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 consolidating information is fairly stated in all material respects in relation to the 2014 consolidated financial statements as a whole.

Perkins & Company, P.C.

May 18, 2015

FAMILYCARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

(see report of independent auditor's on consolidating information)

	FamilyCare, Inc.	FamilyCare Health Plans, Inc.	Heatherington Foundation	Consolidating Entries	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 75,133,676	$ 13,565,732	$ 15,000,025	$ -	$ 103,699,433
Restricted cash and cash equivalents	520,531	-	-	-	520,531
Short-term investments	216,281	654,034	-	-	870,315
Restricted short-term investments	3,543,646	-	-	-	3,543,646
Premiums receivable from DMAP	3,949,410	-	-	-	3,949,410
Reinsurance receivables	592,929	94,872	-	-	687,801
Receivable from CMS	-	2,027,858	-	-	2,027,858
Due from affiliates	106,557	-	-	(106,557)	-
Grant receivable	-	-	-	-	-
Other current assets, net	3,750,671	1,376,325	-	-	5,126,996
Total current assets	87,813,701	17,718,821	15,000,025	(106,557)	120,425,990
Long-term investments	89,391,380	9,582,927	-	-	98,974,307
Restricted long-term investments	8,162,759	277,166	-	-	8,439,925
Investment in FamilyCare Health Plans, Inc.	20,801,553	-	-	(20,801,553)	-
Property and equipment	3,810,008	-	-	-	3,810,008
Other assets	185,525	274,829	-	-	460,354
Total assets	$ 210,164,926	$ 27,853,743	$ 15,000,025	$ (20,908,110)	$ 232,110,584

FAMILYCARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)
DECEMBER 31, 2014
(see report of independent auditor's on consolidating information)

	FamilyCare, Inc.	FamilyCare, Health Plans, Inc.	Heatherington Foundation	Consolidating Entries	Consolidated
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Claims payable and unpaid claims adjudication expenses	$ 34,596,693	$ 6,125,579	$ -	$ -	$ 40,722,272
Savings pool and quality bonus payable	7,783,701	-	-	-	7,783,701
Other policy liabilities	53,304,572	392,487	-	-	53,697,059
Due to affiliates	-	106,557	-	(106,557)	-
Accounts payable	2,060,590	363,487	-	-	2,424,077
Accrued liabilities	2,507,011	64,084	-	-	2,571,095
Current portion of capital lease obligation	109,914	-	-	-	109,914
Total current liabilities	100,362,481	7,052,194	-	(106,557)	107,308,118
CONTRIBUTIONS TO OTHERS, LESS CURRENT PORTION	391,899	-	-	-	391,899
CAPITAL LEASE OBLIGATION, LESS CURRENT PORTION	499,806	-	-	-	499,806
Total liabilities	101,254,186	7,052,194	-	(106,557)	108,199,823
NET ASSETS:					
Unrestricted net assets:					
Designated reserve related to DMAP contract	14,174,213	-	-	-	14,174,213
Designated reserve related to the Insurance Division	2,500,000	2,500,000	-	(2,500,000)	2,500,000
Designated for OPSO	100,000	-	-	-	100,000
Undesignated	92,121,532	18,301,549	15,000,025	(18,301,553)	107,121,553
Total unrestricted net assets	108,895,745	20,801,549	15,000,025	(20,801,553)	123,895,766
Temporarily restricted net assets	14,995	-	-	-	14,995
Total net assets	108,910,740	20,801,549	15,000,025	(20,801,553)	123,910,761
Total liabilities and net assets	$ 210,164,926	$ 27,853,743	$ 15,000,025	$ (20,908,110)	$ 232,110,584

FAMILYCARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014
(see report of independent auditor's on consolidating information)

	FamilyCare, Inc.	FamilyCare, Health Plans, Inc.	Heatherington Foundation	Consolidating Entries	Consolidated
UNRESTRICTED NET ASSETS					
REVENUE					
Medicaid premiums, net	$ 407,886,177	$ -	$ -	$ -	$ 407,886,177
Medicare premiums, net	-	32,110,116	-	-	32,110,116
Other revenue	642,077	-	15,000,000	(15,000,000)	642,077
Total revenue	408,528,254	32,110,116	15,000,000	(15,000,000)	440,638,370
EXPENSES					
Medical and hospital	294,983,856	32,100,621	-	-	327,084,477
Administrative	42,220,175	5,192,658	-	(15,000,000)	32,412,833
Total expenses	337,204,031	37,293,279	-	(15,000,000)	359,497,310
NET ASSETS RELEASED FROM RESTRICTION	1,662,552	-	-	-	1,662,552
CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	72,986,775	(5,183,163)	15,000,000	-	82,803,612
OTHER INCOME (EXPENSE)					
Interest expense	(19,682)	(1,049)	-	-	(20,731)
Investment income	3,132,153	567,899	25	-	3,700,077
	3,112,471	566,850	25	-	3,679,346
LOSS FROM SUBSIDIARY	(4,616,307)	-	-	4,616,307	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	71,482,939	(4,616,313)	15,000,025	4,616,307	86,482,958
TEMPORARILY RESTRICTED NET ASSETS					
Grant revenue	75,000	-	-	-	75,000
Net assets released from restrictions	(1,662,552)	-	-	-	(1,662,552)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(1,587,552)	-	-	-	(1,587,552)
INCREASE (DECREASE) IN TOTAL NET ASSETS	$ 69,895,387	$ (4,616,313)	$ 15,000,025	$ 4,616,307	$ 84,895,406