OREGON HEALTH MANAGEMENT SERVICES AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2014 and 2013

Jones & Roth
CPAs & Business Advisors

OREGON HEALTH MANAGEMENT SERVICES AND SUBSIDIARY
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For the Years Ended December 31, 2014 and 2013

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Oregon Health Management Services
Grants Pass, Oregon

We have audited the accompanying consolidated financial statements of Oregon Health Management Services (an Oregon corporation) and subsidiary, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audits 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon Health Management Services and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
June 29, 2015

CONSOLIDATED FINANCIAL STATEMENTS

OREGON HEALTH MANAGEMENT SERVICES AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 3,534,995	$ 3,373,936
Accounts receivable	228,912	781,118
Transformation grant receivable	-	225,002
Income tax receivable	265,595	-
Prepaid expenses	91,012	74,485
Future income tax benefits	8,848	13,669
Total current assets	4,129,362	4,468,210
Furniture, equipment, and leasehold improvements		
Furniture, equipment, and leasehold improvements	697,658	906,552
Accumulated depreciation	(540,790)	(778,552)
Furniture, equipment, and leasehold improvements, net	156,868	128,000
Other assets		
Escrow deposits, ATRIO	1,500,057	-
Goodwill	247,379	237,561
Restricted cash	1,221,040	995,115
Total other assets	2,968,476	1,232,676
Total assets	$ 7,254,706	$ 5,828,886

	2014	2013
Liabilities and Stockholders' Equity		
Current liabilities		
Medical claims payable	$ 1,956,625	$ 1,295,274
Mental health claims payable	57,000	57,000
Accounts payable	272,528	334,827
Mental health capitation payable	382,199	593,897
Transformation grant payable	274,998	148,774
SNRG payable	762,733	438,519
Income taxes payable	-	434,005
Accrued wages and related taxes	274,232	191,087
Total current liabilities	3,980,315	3,493,383
Stockholders' equity		
Class A common stock no par value; voting, 5,000 shares authorized, -0- issued and outstanding in 2014 and 2013	-	-
Class B common stock no par value; voting, 5,000 shares authorized, 180 shares issued and outstanding in 2014 and 2013	18,000	18,000
Retained earnings	3,256,391	2,317,503
Total stockholders' equity	3,274,391	2,335,503
Total liabilities and stockholders' equity	$ 7,254,706	$ 5,828,886

The accompanying notes are an integral part of these consolidated statements.

OREGON HEALTH MANAGEMENT SERVICES AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2014 and 2013

	2014		2013	
	Amount	Percent of Revenue	Amount	Percent of Revenue
Revenue				
Prepaid plan revenue	$ 51,574,000	97.3	$ 23,934,165	96.9
Grant revenue	756,786	1.4	225,002	0.9
Other contract services	685,961	1.3	533,081	2.2
Total revenue	53,016,747	100.0	24,692,248	100.0
Cost of services				
Claims expense	18,507,773	34.9	11,802,016	47.8
Capitation payments	21,225,079	40.0	7,164,917	29.0
Other	199,324	0.4	92,334	0.4
Total cost of services	39,932,176	75.3	19,059,267	77.2
Excess of revenue over cost of services	13,084,571	24.7	5,632,981	22.8
General and administrative expenses	11,496,752	21.7	3,597,666	14.6
Operating income	1,587,819	3.0	2,035,315	8.3
Other income (expense)				
Interest income	7,295	-	5,561	0.1
Income before taxes	1,595,114	3.0	2,040,876	8.4
Provision for (benefit from) income taxes				
Current	615,405	1.2	767,205	3.2
Deferred	4,821	-	22,263	0.1
Total provision for (benefit from) income taxes	620,226	1.2	789,468	3.3
Net income	$ 974,888	1.8	$ 1,251,408	5.1

The accompanying notes are an integral part of these consolidated statements.

OREGON HEALTH MANAGEMENT SERVICES AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2014 and 2013

	Common Stock Class A		Common Stock Class B		Retained	
	Shares	Amount	Shares	Amount	Earnings	Total
Balance, December 31, 2012	-	$ -	180	$ 18,000	$ 1,102,095	$ 1,120,095
Net income	-	-	-	-	1,251,408	1,251,408
Dividends paid	-	-	-	-	(36,000)	(36,000)
Stock redemption	-	-	-	-	-	-
Balance, December 31, 2013	-	-	180	18,000	2,317,503	2,335,503
Net income	-	-	-	-	974,888	974,888
Dividends paid	-	-	-	-	(36,000)	(36,000)
Balance, December 31, 2014	-	$ -	180	$ 18,000	$ 3,256,391	$ 3,274,391

The accompanying notes are an integral part of these consolidated statements.

OREGON HEALTH MANAGEMENT SERVICES AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Net income	$ 974,888	$ 1,251,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23,050	69,898
Change in future income tax benefits and liabilities	4,821	22,263
(Increase) decrease in:		
Accounts receivable	552,206	(312,249)
Transformation grant receivable	225,002	(225,002)
Income tax receivable	(265,595)	-
Prepaid expenses	(16,527)	(15,046)
Increase (decrease) in:		
Medical claims payable	661,351	22,274
Mental health claims payable	-	(276,852)
Accounts payable	(62,299)	248,904
Mental health capitation payable	(211,698)	593,897
Transformation grant payable	126,224	148,774
SNRG payable	324,214	438,519
Income taxes payable	(434,005)	360,538
Provider tax payable	-	(1,044)
Accrued wages and related taxes	83,145	(20,064)
Net cash provided by operating activities	1,984,777	2,306,218
Cash flows from investing activities		
Increase in ATRIO escrow deposits	(1,500,057)	-
Increase in restricted cash	(225,925)	(376,350)
Investment in PHJC	(9,818)	(237,561)
Purchases of furniture, equipment, and leasehold improvements	(51,918)	(50,116)
Net cash used by investing activities	(1,787,718)	(664,027)
Cash flows from financing activities		
Dividends paid	(36,000)	(36,000)
Net increase in cash and cash equivalents	161,059	1,606,191
Cash and cash equivalents, beginning of year	3,373,936	1,767,745
Cash and cash equivalents, end of year	$ 3,534,995	$ 3,373,936
Supplemental cash flow information		
Cash paid for income taxes	$ 881,000	$ 333,200

The accompanying notes are an integral part of these consolidated statements.

1. Nature of Operations and Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist in understanding the consolidated financial statements for Oregon Health Management Services (the Company) and subsidiary, PrimaryHealth of Josephine County, LLC (PrimaryHealth). These accounting policies conform to accounting principles generally accepted in the United States of America.

Description of Operations

The Company was organized in the state of Oregon on October 24, 1995, and started operations May 1, 1996. The Company purchased PrimaryHealth from CareOregon on December 31, 2013. All significant intercompany activity and accounts have been eliminated in the accompanying consolidated financial statements.

PrimaryHealth is currently under contract with the State of Oregon Department of Human Services, Oregon Health Authority (OHA) to provide prepaid medical, dental and mental health services in Josephine County, Oregon, as well as the contiguous zip codes of Jackson and Douglas Counties, Oregon. The service contract was renewed January 1, 2014 and is set to expire December 31, 2018.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when an obligation is incurred.

Cash and Cash Equivalents

Management considers cash and cash equivalents to consist of cash deposits and short-term, highly liquid investments with remaining maturities of three months or less when acquired and are carried at cost, which approximates market value.

Accounts Receivable

Accounts receivable consists of amounts due under various counseling contracts and claim refunds. The Company does not require collateral or other security to support accounts receivable. No allowance has been recorded for uncollectible accounts as management considers all accounts to be collectible. The Company does not add interest or finance charges to the outstanding receivables.

Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements are stated at cost. Leasehold improvements and replacements of furniture and equipment are capitalized. Maintenance and repairs are charged to current operations as incurred. Depreciation of furniture, equipment, and leasehold improvements is computed using the straight-line method over the estimated useful lives ranging from 5 to 15 years. Software is amortized over three years.

1. Nature of Operations and Summary of Significant Accounting Policies, continued

Goodwill

Goodwill represents the excess of the cost of acquiring PrimaryHealth over the value of the net assets on December 31, 2013, the date of acquisition. In accordance with accounting principles generally accepted in the United States of America, goodwill is to be tested for impairment if an event occurs or circumstances change that indicate the fair value of the entity may be below its carrying amount. For the year ended December 31, 2014, no such events or changes in circumstances were noted, and as such management did not perform an impairment test on its goodwill balance.

Medical Claims Payable

Claims incurred represent capitation and noncapitation payments for services rendered during the year. The medical claims payable liability is based on experience statistics related to the nature and volume of work performed. This estimated liability is periodically evaluated 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 analysis of claims paid after the balance sheet date and an actuarial review of historical claim experience.

Special Needs Rate Group Payable

As part of the Coordinated Care Organization (CCO) transition of care, the Oregon Health Administration (OHA) moved certain high-cost members deemed to have life-threatening medical issues from the Open Card program to the CCOs. An inflated capitation rate was initially utilized by the OHA as sufficient historical data was not available to determine an actuarially sound capitation rate, with the intention of completing a reconciliation to actual data at a later time. Management has estimated the total liability utilizing actual expenses incurred to date to determine an expected amount payable per member per month basis.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Future income tax benefits are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Future income tax benefits and deferred tax liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Company to report information regarding its exposure to various tax positions taken by the Company. The Company has determined whether any tax positions have met the recognition threshold and has measured the Company’s exposure to those tax positions. Management believes that the Company has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities.

1. Nature of Operations and Summary of Significant Accounting Policies, continued

Revenue Recognition

Premiums and administration fees earned from capitation payments received from OHA are recognized in the month in which they are earned.

Reinsurance

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to its single reinsurer under excess coverage agreements. In addition, the Company is required to obtain certain reinsurance as a contractor of OHA. These agreements call for the Company to cede reinsurance premiums to their reinsurer on a per member per month basis, in return, the reinsurer assumes 90 percent of the risk in excess of specified limits. Reinsurance agreements do not relieve the Company from its obligation to providers. Amounts recoverable from the reinsurance policy are estimated in a manner consistent with the claim liability associated with the reinsurance policy. Reinsurance premiums and reinsurance recoveries are included in claims expense. Reinsurance premiums were $442,685 and $320,768 in 2014 and 2013, respectively.

Use of Estimates

The preparation of consolidated financial statements, in conformity with generally accepted accounting principles of the United States of America, requires the Company make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The amounts estimated could differ from actual results. Significant estimates in these consolidated financial statements include the liability for medical claims incurred but not reported.

Restricted Cash

Restricted cash consists of a money market account at Umpqua Bank with a balance of $1,221,040 and $995,115 at December 31, 2014 and 2013, respectively. These funds are restricted as to their use and are held to satisfy a required reserve of OHA for the Company to maintain status as a contractor.

2. Escrow Deposits, ATRIO

On February 27, 2014, the Company entered into a stock purchase agreement with ATRIO Health Plan, Inc (ATRIO) to purchase 500 shares of Series A voting stock for $1,500,000 contingent upon ATRIO achieving a minimum amount of annualized premiums by December 31, 2016. In accordance with the agreement, during 2014, the Company made a $500,000 non-refundable deposit and a $1,000,000 refundable deposit in to an escrow account which will be distributed to ATRIO as payment of the purchase price if the terms of the agreement are met. The balance in the escrow account as of December 31, 2014 was $1,500,057.

3. Commitments

The Company entered into an operating lease with a third-party for office space beginning on October 1, 2007. The lease agreement requires the Company to make minimum monthly rental payments of $3,908. The lease was set to expire October 1, 2016, however, the Company has entered into a lease for a new building and has opted to buyout the lease by making a payment equivalent to 12 months of rental payments in 2015.

The Company entered into an operating lease with a third-party for office space on December 1, 2013. The agreement requires the Company to make minimum monthly rental payments of $1,300. The lease had an expiration date of December 1, 2018, however, the Company entered into a new lease for a new building and has elected to terminate this lease. As a result, the lease is set to expire July 1, 2015.

Additionally, the Company entered into another operating lease with a third-party for parking spaces on October 1, 2014. The agreement required the Company make minimum monthly rental payments of $525. The lease expires upon termination of the agreement on 30 days advance written notice. As the Company is set to move to its new location, the lease expires July 1, 2015.

The Company entered into an operating lease with a third-party for a new building effective July 1, 2015. The lease is set to expire June 30, 2021. The agreement requires the Company make minimum monthly rental payments of $10,450 from July 2015 to June 2017, $11,701 from July 2017 to June 2019, and $11,969 thereafter.

The Company has also entered into various operating leases for office equipment that are set to expire between March 2015 and December 2018. The agreements require minimum monthly payments of $626 and $756, respectively.

The future minimum lease payments are as follows:

Year Ending December 31,		
2015	$	126,975
2016		134,478
2017		141,981
2018		149,484
2019		142,019
Thereafter		215,440
Total	$	910,377

Rent expense totaled $96,618 and $94,922 in 2014 and 2013, respectively.

4. Concentrations of Risk

The Company maintains its cash and investments in bank deposit accounts, which at times may exceed federally insured limits. The Company makes such investments with entities management believes to have high credit quality and has not incurred any losses in such accounts, and believes it is not exposed to any significant credit risk on cash and cash equivalents. At December 31, 2014 and 2013, the Company's deposits were in excess of federally insured limits by $3,515,166 and $2,764,154, respectively.

The Company derived approximately 97 percent of its revenue from the contract with the OHA in 2014 and 2013. Loss of the contract due to non-renewal or state legislative decisions to discontinue funding the program could materially affect the financial position of the Company. The contract is renewable on an annual basis effective January 1 with interim rate adjustments.

5. Common Stock

The Company has two classes of common stock: Class A and Class B. Class A common stock is no par value voting stock. There are 5,000 shares of Class A common stock authorized; none were issued and outstanding at December 31, 2014 and 2013.

Class B common stock is no par value voting stock. There are 5,000 shares of Class B common stock authorized; 180 shares were issued and outstanding at December 31, 2014 and 2013.

6. Income Taxes

	2014	2013
Net future income tax benefits consist of:		
Temporary federal differences	$ 7,325	$ 11,317
Temporary state differences	1,523	2,352
Total net future income tax benefits	$ 8,848	$ 13,669

The primary timing differences giving rise to future income tax benefits and liabilities are:

- Medical claims and contractual withholding liabilities deducted for book purposes but deferred to future years for income tax reporting purposes.
- The difference between depreciation for tax purposes and the amount recorded for financial reporting purposes.
- Certain payroll related liabilities recognized earlier for financial reporting purposes than for tax purposes.
- Charitable contributions carried forward.
- Prepaid expenses.

6. **Income Taxes**, continued

	2014	2013
Provision for (benefit from) income taxes consisted of:		
Current income taxes – federal	$ 507,555	$ 628,329
Current income taxes – state	107,850	138,876
Future income tax benefits – federal	3,992	17,721
Future income tax benefits – state	829	4,542
Total provision for (benefit from) income taxes	$ 620,226	$ 789,468

7. Related Party Transactions

The Company entered into a month-to-month operating lease from Grants Pass Clinic, LLP for office space beginning on January 1, 2008. Grants Pass Clinic, LLP is owned 100 percent by the shareholders of the Company. Total payments were $16,200 for the years ended December 31, 2014 and 2013.

The Company also pays members of the Board of Directors a management fee. The management fee is currently $100 per hour for meetings attended. The Company paid the Chairman of the Board $48,000 in management fees during 2014 and 2013. The Company paid the Medical Director $137,487 and $95,820 in management fees during 2014 and 2013. The Company paid $207,662 and $168,370 in total management fees during 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the Company had amounts payable to related parties of $43,246 and $28,085, respectively.

8. Employee Benefit Plan

The Company has a profit-sharing 401(k) retirement plan covering full-time and part-time personnel with at least 1,000 hours of service and twelve months of continuous service. Management has elected to match 50 percent of employees first 6 percent contributed and contributed a discretionary 3 percent of gross wages for the current year. The profit sharing and matching contribution was $94,280 and $73,738 in 2014 and 2013, respectively.

9. Subsequent Events

Management evaluates events and transactions that occur after the balance sheet date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor’s report.

SUPPLEMENTARY INFORMATION

OREGON HEALTH MANAGEMENT SERVICES AND SUBSIDIARY
CONSOLIDATED SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
For the Years Ended December 31, 2014 and 2013

	2014	2013
Salaries	$ 2,193,927	$ 1,535,621
Hospital reimbursement allowance	6,618,785	294,252
Employee benefits	241,906	167,532
Payroll taxes	195,362	142,130
Rent and lease expense	96,618	94,922
Medical supplies	103,604	84,022
Contributions	20,300	35,100
Medical director	137,487	95,820
Retirement plans	94,280	73,738
Contract labor	316,796	148,225
Office supplies	49,423	37,479
Depreciation	23,050	69,898
Professional services	120,695	85,594
Administrative services	401,000	79,021
Telephone	47,871	40,601
Computer expense	101,850	82,397
Insurance	32,962	27,676
Board fees	70,175	72,550
Dues and subscriptions	201,060	119,993
Repairs and maintenance	50,627	32,054
Travel, training, and conference expenses	52,049	23,760
Utilities	25,022	22,163
Education	33,734	23,900
Copier maintenance	-	8,737
Miscellaneous	78,483	23,463
Transformation grant	126,223	148,774
Postage	25,803	13,985
Vehicle expense	6,542	5,024
Printing	19,982	6,657
Community outreach	11,136	2,578
Total general and administrative expenses	$ 11,496,752	$ 3,597,666