

**Western Oregon Advanced Health, LLC**

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**FINANCIAL STATEMENTS  
(Stand-Alone Financial Statements)**

For the Period from Inception  
(May 10, 2012) to December 31, 2012

Western Oregon Advanced Health, LLC (WOAH)  
December 31, 2012

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Balance Sheet	2
Statement of Comprehensive Income	3
Statement of Member's Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6 -- 9



READ & BOSE, PC

CERTIFIED PUBLIC  
ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

### TO THE BOARD OF DIRECTORS

Western Oregon Advanced Health, LLC (WOAH)

Coos Bay, Oregon

We have audited the accompanying financial statements of Western Oregon Advanced Health, LLC (a single member limited liability company), which comprise the balance sheet as of December 31, 2012, and the related statements of comprehensive income, member's equity, and cash flows for the period from inception (May 10, 2012) to December 31, 2012, 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.

#### *Auditor's 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 of 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 entity'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 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 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 Western Oregon Advanced Health, LLC as of December 31, 2012, and the results of operations and its cash flows for the initial period then ended in accordance with accounting principles generally accepted in the United States of America.

*Read & Bose, PC*

Pendleton, Oregon  
June 12, 2013

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)  
BALANCE SHEET  
December 31, 2012

		<u>2012</u>
ASSETS		
Cash and cash equivalents	\$	854,260
Investments		1,493,272
Health care receivables		208,058
Interest receivables and other assets		<u>27,257</u>
 TOTAL ASSETS	 \$	 <u><u>2,582,847</u></u>
LIABILITIES AND EQUITY		
Accounts payable and other accrued expenses	\$	44,009
Health care payables		<u>508,924</u>
 Total liabilities		 <u>552,933</u>
 Member's Equity		
Member contributions		2,010,000
Accumulated other comprehensive income		(25,753)
Retained earnings		<u>45,667</u>
 Total member's equity		 <u>2,029,914</u>
 TOTAL LIABILITIES AND EQUITY	 \$	 <u><u>2,582,847</u></u>

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

**WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the Period from Inception (May 10, 2012) to December 31, 2012

	2012
<b>REVENUES:</b>	
Medicaid premium, net of pass thru expenses	\$ 19,554,355
Investment income, net of investment expenses	20,770
Total revenues	19,575,125
<b>MEDICAL EXPENSES:</b>	
Capitated claims expenses, net of recoveries	17,570,390
Total medical expenses	17,570,390
<b>ADMINISTRATIVE EXPENSES:</b>	
Physical health medical management	1,208,018
Mental health medical management	234,268
Administrative contract services	196,007
Legal and professional services	99,462
Medical program expenses	9,119
Office and supplies expenses	12,194
Program developmental costs	200,000
Total administrative expenses	1,959,068
Net Income	45,667
Net change in unrealized losses of investments	(25,753)
Total comprehensive income	\$ 19,914

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

**WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)**  
**STATEMENT OF MEMBER'S EQUITY**  
For the Period from Inception (May 10, 2012) to December 31, 2012

	Member Contribution	Accumulated other Comprehensive income	Retained Earnings	Total Equity
Balance, May 10, 2012	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>          -</u>
Capital contribution	2,010,000			2,010,000
Change in unrealized investments		(25,753)		(25,753)
Net income	<u>          -</u>	<u>          -</u>	<u>      45,667</u>	<u>      45,667</u>
Balance, December 31, 2012	\$ <u>      2,010,000</u>	\$ <u>          (25,753)</u>	\$ <u>      45,667</u>	\$ <u>      2,029,914</u>

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

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)  
STATEMENT OF CASH FLOWS  
For the Period from Inception (May 10, 2012) to December 31, 2012

	2012
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$ 45,667
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Healthcare receivables	(208,058)
Other assets	(27,257)
Accounts payable and other accrued expenses	44,009
Healthcare payables	508,924
Net cash provided (used) by operating activities	363,285
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(216,961)
Net cash provided (used) in investment activities	(216,961)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital contributions	707,936
Net cash provided (used) by financing activities	707,936
NET INCREASE IN CASH AND CASH EQUIVALENTS	854,260
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 854,260

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

**WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

1. Organization and Summary of Significant Accounting Policies:

Western Oregon Advanced Health, LLC (WOAH) was organized under the State of Oregon in May 2012 and began operations in August 2012. WOA, LLC is currently under contract with the State of Oregon Department of Human Resources, Division of Medical Assistance Programs (DMAP) and the Oregon Health Authority to provide prepaid services to Coos County and northern Curry County, Oregon as a fully capitated health plan as Coordinated Care Organization. The contract has been renewed as of August 1, 2012 until December 31, 2013 and then is renewed annually with the State of Oregon.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits with financial institutions. At times during 2012, WOA, LLC bank balances exceeded FDIC limits. The company has purchased additional collateral certificates to support amounts exceeding FDIC limits.

Fair Value Measurements

We have various financial instruments we must measure at fair value on a recurring basis. See Footnote No. 3 "Investments," for further information. We also apply the provisions of fair value measurement to various non-recurring measurements for our financial and non-financial assets and liabilities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2012

1. Organization and Summary of Significant Accounting Policies continued:

corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect our assumptions about what factors market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

All of our assets are valued at Level 1 inputs.

Investments

Investments held by WOAHA include money market mutual funds, certificate of deposits and corporate and municipal debentures which are classified as available for sale investments. Investments are reported at fair value, with unrealized gains and losses excluded from earnings and reported as other comprehensive income or loss, net of taxes. The fair value of certificates of deposit approximates costs plus accrued interest.

Under the contract, WOAHA must establish restricted reserve funds to cover claims liability in case the Company becomes insolvent. WOAHA must maintain a primary and secondary reserve to cover the minimum reserve requirements and additional reserve requirements based on the average monthly fee for service liabilities of the Company. This restricted reserve balance is required to be zero at year-end and thus no amount is reported in the financial statements as restricted on balance sheet.

Revenue, medical cost and administrative cost recognition

Revenue is recognized over the period of which services are agreed to be provided. WOAHA, LLC is fully capitated for Medicaid premium in Coos and Northern Curry County.

WOAHA contracts with Southwest Oregon Independent Practice Association, dba Doctors of the Oregon Coast South (DOCS) for fully capitated services for the medical budget based on % of premium for all physical health. WOAHA contracts with Coos and Curry mental health departments under a fully capitated model based on a % of premium for mental health.

The cost of administrative services for certain medical management and administrative function is also paid based on % of premium to DOCS and mental health counties. Other direct costs are paid directly to consultants for management of the company.

**WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

1. Organization and Summary of Significant Accounting Policies continued:

Income Taxes

The company is a single member limited liability company, which will be included in parent's consolidated filed tax returns. There is no provision for federal or state income taxes for the year recorded on these financial statements. The company has evaluated its income tax positions as of December 31, 2012 and determined that it does not have any uncertain income tax positions for which unrecognized tax liability should be recorded. The Company's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal and state income tax returns have a three year statute of limitations.

2. Subsequent Events

Subsequent events have been evaluated through June 12, 2013, which is the date the financial statements were issued. Local medical providers including hospitals are allowed to invest capital in WOAHA until end of 2013. During June 2013, WOAHA entered into a memorandum understanding to expand to dental services for July with the State of Oregon and outside vendor party.

3. Investments:

Investments consisted of the following at December 31:

	<u>Cost</u>	<u>Fair Value (Level 1)</u>
Money market mutual funds and deposits	\$ 9,804	\$ 9,804
Corporate and municipal debentures	1,109,171	1,081,656
Certificates of deposit	400,050	401,812
	<u>1,519,025</u>	<u>1,493,272</u>
Investments and restricted investments	\$ 1,519,025	\$ 1,493,272

Estimated fair value and amortized cost of money market mutual funds, deposits and certificates of deposit are the same for financial reporting purposes. Investments shown above mature less than 12 months from the original purchase date.

As stated in Note 1, the contract requires WOAHA to establish a restricted reserve fund to cover claim liabilities in case the Company becomes insolvent. As of December 31, 2012, there were no restricted investments required by state of Oregon.

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2012

4. Related Party Transactions:

As noted above, DOCS, the owner of the LLC, is also a local individual practice association that provides the majority of health care and administrative services under the medical services agreement between WOAAH and the State of Oregon. These physicians receive payments for services rendered to patients covered by the agreement. At the discretion of the DOCS Board of Directors and the WOAAH board, they may also receive dividends or other profit-sharing payments.

During 2012, WOAAH paid the parent company \$17,372,291 for medical services, medical management, and administrative services for the year, and for reimbursement of development costs. At year-end, WOAAH owes the parent company \$310,628 for medical and administrative services.

5. Commitments and Contingent Liabilities:

Regulatory

There are significant financial and regulatory reporting requirements under the State of Oregon Contract. Management believes they are in compliance with all significant requirements material to contract.

Concentration of Credit Risk

WOAH, LLC conducts business only providing medical services to patients in Coos County, Oregon. WOAAH's contracts with State of Oregon, as stated in Note 1, represent 100% of total revenues.